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**MILITARY RESALE AND MORALE,
WELFARE, AND RECREATION OVERVIEW**

HEARING

BEFORE THE

MILITARY PERSONNEL SUBCOMMITTEE

OF THE

COMMITTEE ON ARMED SERVICES
HOUSE OF REPRESENTATIVES

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MILITARY RESALE AND MORALE, WELFARE, AND RECREATION OVERVIEW

HOUSE OF REPRESENTATIVES,
COMMITTEE ON ARMED SERVICES,
MILITARY PERSONNEL SUBCOMMITTEE,
Washington, DC, Thursday, April 17, 2008.

The subcommittee met, pursuant to call, at 10:01 a.m., in room 2118, Rayburn House Office Building, Hon. Susan A. Davis (chairwoman of the subcommittee) presiding.

OPENING STATEMENT OF HON. SUSAN A. DAVIS, A REPRESENTATIVE FROM CALIFORNIA, CHAIRWOMAN, MILITARY PERSONNEL SUBCOMMITTEE

Mrs. DAVIS. Good morning. Good to see you all.

Today, the subcommittee will turn its attention to military resale and morale, welfare and recreation of our MWR programs. When service members and their families talk about community quality of life, they are referring to the commissaries, to exchanges, child development centers, youth centers, libraries, gymnasiums, playing fields, parks, golf courses, clubs, restaurants, recreation equipment, and hobby shops that are the core of the military community.

Many Americans would consider the package of facilities and services that is typical for most installations and declare that it is better than what they have in their communities. But few would challenge that these community resources are inappropriate, because Americans recognize the remarkable sacrifices and stress that accompany military life, particularly today, given the extreme tempo of our ongoing conflicts. Our families need these strong and reliable centers in their lives, and our warriors absolutely must be confident that their families are well cared for in their absence.

The programs we will talk about today are a critical part of that confidence. In short, the Members of Congress, and particularly the members of this subcommittee, are believers. While we require no convincing, I worry about the commitment of the armed services to sustaining these programs; with the exception of child care, the appropriated funding support for these programs has not always been so terribly enthusiastic, and we seem to be less concerned about the challenge in maintaining a caring community environment.

So I hope that the day does not come when we regret the loss of the sense of community in the military because we no longer fully appreciate its value as we once did. And you may want to respond to that because I think what we are trying to see is, how do we—how do we enhance that? How do we see it growing in a way that really honors the men and women who serve?

We also have a number of questions concerning the management of these programs and the stewardship of the nonappropriated dollars that belong to the soldiers, sailors, airmen and marines that serve our Nation.

Before introducing our wonderful panel this morning, I want to recognize Mr. McHugh for his opening comments.

[The prepared statement of Mrs. Davis can be found in the Appendix on page 43.]

Mrs. DAVIS. Mr. McHugh.

STATEMENT OF HON. JOHN M. MCHUGH, A REPRESENTATIVE FROM NEW YORK, RANKING MEMBER, MILITARY PERSONNEL SUBCOMMITTEE

Mr. MCHUGH. Thank you very much, Madam Chair. I ask that my full statement be placed in the record in its entirety.

And let me just very briefly say that—well, first of all, welcome to our distinguished panelists. You may have set a committee record for the number of individuals on a panel. As the Chair suggested, your number very clearly underscores the wide range of the services you provide, and yet it all comes back to that one catch-all phrase, “quality of life.” And I know you recognize in this time of high operations tempo the necessity for your product, for the quality of life, that the needs of your customers have never been greater. And that is our collective goal here, of course, to try to do everything we can to ensure that your product goes forward and wherever necessary and possible, even enhanced.

I certainly share the Chair’s concern about what seems to be, certainly in real dollar terms, a lack of consistent commitment of the MWR programs. I think that that is something that we are going to want to discuss more fully here today. And, as well, of course, we want to hear your perspective—where you view the greatest challenges, how we can be helpful to you as you endeavor to meet those challenges.

And let me last welcome five of you, particularly. You are all welcome, of course. And we are honored to have you. But we have five amongst you, this is your first appearance; and I know the Chair will be introducing the panel, so I will leave it to her to single those folks out. But I wanted to add my particular words of appreciation to those new panelists, and we will try not to be too heavy handed in our treatment of you.

So welcome, and we look forward to your comments.

And, Madam Chair, I yield back.

[The prepared statement of Mr. McHugh can be found in the Appendix on page 46.]

Mrs. DAVIS. Thank you, Mr. McHugh.

I wanted to introduce all of the panel members this morning. Ms. Leslye Arsht, who is the Deputy Under Secretary of Defense for Military Community and Family Policy; Major General John A. Macdonald, United States Army, Deputy Commanding General, U.S. Army Installation Management Command, and Commander, Family and Morale, Welfare and Recreation Command; Rear Admiral Robert Bianchi, U.S. Navy Commander, Navy Exchange Service Command; Brigadier General Keith Thurgood, U.S. Air Forces, Commander, Army and Air Force Exchange Service; General Tim-

othy Larsen, Director of Personal and Family Readiness Division, Headquarters U.S. Marine Corps; Mr. Richard Page, Acting Director, Defense Commissary Agency; Mr. John Baker, Fleet and Family Readiness Program Director, Navy Installations Command; and Mr. Arthur J. Myers, Director of Services, Headquarters U.S. Air Force.

Ms. Arsht and Mr. Myers, you are both very familiar, we know; and welcome back to you.

And General Macdonald, as we know, you took a year off, and we welcome you back with—and also in a new role and a promotion. So congratulations to you.

And to the rest of you, we welcome you here. I am very pleased to have you. The Subcommittee on Military Personnel knows how important your positions are; and we are very encouraged by your interest and your commitment and we thank you very much for being here.

It is unusual to have almost 100 percent turnover in these positions, and so we hope that that will mean that we have great new energy; and I am sure that the excellence of all of you will certainly be realized as we work toward the goal of helping our military families.

I wanted to ask, and I think you have probably been told, we have such a large panel, and you have some wonderful statements that you have given to us; if you can reduce your comments this morning, though, to three minutes, and your introductory statement, I know that we are going to have an opportunity to get to many of the issues that you would spend more time talking about. But if you could, just focus on the key issues that you want us to know about today, this morning, and we will have an opportunity to go into far greater depth.

Thank you very much for being here.

Ms. Arsht.

STATEMENT OF LESLYE A. ARSHT, DEPUTY UNDER SECRETARY OF DEFENSE FOR MILITARY COMMUNITY AND FAMILY POLICY

Ms. ARSHT. Chairwoman Davis, Representative McHugh, distinguished members of the subcommittee, thank you for this opportunity.

Today, you will hear testimony about inspired approaches and a renewed spirit of collaboration to deliver meaningful and relevant support to our military community members, whether they live near or far from an installation. Our resale and MWR programs are more effectively reaching out to our active duty, Guard and Reserve families, our retirees, the digital generation of members and our military spouses who work. We are creating a new paradigm made possible through technologies and partnerships.

Working together with the services to implement Base Realignment and Closure (BRAC) and restationing, we have made great progress to develop uniform guidelines and standards for programs to treat our affected employees equitably and assure that the facilities costs are borne by appropriated funds.

In the State of the Union address, the President asked that Congress support more child care and education opportunities for our

military families. With the help of enabling legislation, we plan to increase the availability of affordable child care by further accelerating on-base construction programs and by creating more partnerships for child care in the communities outside the gate.

We are also expanding spouse career and education opportunities. There is a renewed commitment by the commissary and exchange leadership to work together to better serve the customer. Joint sales events exemplify commissary and exchange collaboration. These events attract our families from surrounding communities, including retirees, to our retail complexes on military installations.

Last year, Defense Commissary Agency (DeCA) initiated prototype events at Guard and Reserve locations and plans to significantly increase the number of events this year with exchange participation.

We are initiating several MWR programs for our far-flung military members and families. Newly purchased library databases and electronic and audio books, including animated books for children and do-it-yourself guides for home and auto repair will be available virtually anywhere through Military OneSource and services library portals.

To expand the MWR benefit for families of deployed Guard and Reserve members, we will buy down family memberships to fitness and recreation centers in local and communities. For deployed members who use the Internet to communicate with family and friends, we improved the speed, reliability and access to YouTube.com, Facebook.com and other widely used websites.

I thank the Congress, our resale and MWR employees, our industry partners for the genuine concern and willingness to work together to sustain these essential programs. We will need your continued support as we adapt our programs to better serve the deployed Guard and Reserve communities and implement the President's initiatives for military families.

Thank you.

[The prepared statement of Ms. Arsht can be found in the Appendix on page 48.]

Mrs. DAVIS. Thank you.

Yes, please go ahead. Who is next, Mr. Macdonald?

General Macdonald.

STATEMENT OF MAJ. GEN. JOHN A. MACDONALD, USA, DEPUTY COMMANDING GENERAL, U.S. ARMY INSTALLATION MANAGEMENT COMMAND AND COMMANDER, FAMILY AND MORALE, WELFARE AND RECREATION COMMAND

General MACDONALD. Madam Chairwoman and members of the subcommittee, it is a pleasure to appear before you to discuss the progress we have made in adapting Army family and MWR programs to meet the challenges and opportunities that are transforming our Army. I have submitted my statement for the record and have a few brief comments.

Much of what I have to share with you today is not news. It is not news that we continue to maintain MWR professional staff in Southwest Asia and the Balkans; or that we maintain facilities at 56 sites in Iraq, Afghanistan, Kuwait; or that 65 civilian MWR pro-

professionals have served in areas since 9/11. But we do, and they have. What was initially groundbreaking is now business as usual; and while not exciting to report the routine nature of, it is precisely what makes it good news.

Mrs. DAVIS. General, could you pull the mic a little closer, please? Is it on?

Great. Thank you.

General MACDONALD. Deploying soldiers can now be assured of a standard level of service in even the most austere environments. We continue to improve support in modest and important ways: sports and recreation, library and theater-in-a-box kits remain mainstays of MWR support to deployed soldiers.

But one of our latest and very popular editions is a product called a Playaway that we send to troops in Iraq and Afghanistan, about the size of an iPod, that comes preloaded with an entire audio book, ear buds, extra batteries and a lanyard ready to go wherever soldiers are regardless of whether they have electricity or not.

Army support for families is another idea that is not new, but the level of support is unprecedented. Your Army now has the most dynamic and ambitious program to support families in its 233-year history. Our initiatives are too numerous to fully discuss here, but I would like to highlight just a few.

The Army Family Covenant is new and represents a \$1.4 billion commitment this year to provide soldiers and families a quality of life corresponding with their voluntary service and daily sacrifice. That is a \$700 million increase over last year.

Our programs and services must adapt as the Army grows and transforms. We are accomplishing that by implementing the Family Covenant and other programs of standardized services accessibility—quality health care, excellence in schools, and expanded spousal education and employment opportunities. The Army Integrated Family Support Network connects geographically dispersed, all of our National Guard and Reserve soldiers, to provide information, tools, resources and capabilities so that those families are included in the Army, as well.

Army Child and Youth Programs remain essential to reduce the conflict between soldiers' parental responsibilities and unit mission requirements. The special authority to use operations and maintenance (O&M) funding to construct child development centers granted by the Fiscal Year 2006 National Defense Authorization Act (NDAA) and extend it in 2008 has been an invaluable complement to military construction (MILCON), and we appreciate it. It has been able to serve as a fast track intervention to be able to grow our child care capability.

The Army community covenant will be unveiled today at Fort Benning, and is an ability for the Army to improve quality of life for soldiers and families both at the current duty stations as they transfer from state to state. This is tailored at the local level, state level, and is working with governors and governments to help us use community capability to support our soldiers.

In conclusion, the Army will continue to invest in our centerpiece, our soldiers and the families that support them. We are on the right track in moving forward, installations and quality of life

are better today and will be even better tomorrow. With your continued support, the Army will restore balance, build the readiness necessary in an era of persistent conflict and remain the strength of the Nation.

I will be happy to answer any questions you may have. Thank you very much.

[The prepared statement of General Macdonald can be found in the Appendix on page 79.]

Mrs. DAVIS. Thank you.

Admiral Bianchi.

**STATEMENT OF REAR ADM. ROBERT J. BIANCHI, USN,
COMMANDER, NAVY EXCHANGE SERVICE COMMAND**

Admiral BIANCHI. Chairwoman Davis and distinguished members of the subcommittee, it is my privilege to appear before you today, representing Navy exchanges.

Navy exchange programs exist to provide quality of life support to our warfighters. Our role is a vital and enduring one. By improving the quality of life of our sailors and taking care of their needs, we allow them to focus on their mission and ultimately prevail in battle because, at the end of the day, that is really what it is all about.

Exchanges are instrumental in supporting recruitment and retention. Navy's quality of life and retention survey of enlisted and officer spouses has validated our critical link to retention. Navy exchanges ranked among the top five programs just behind health care, retirement benefit, housing allowances and commissaries.

We support our warfighters both at sea and ashore. As Navy operations evolve around the globe, so does our Navy exchange presence. Navy Exchange Service Command (NEXCOM) opened its newest store at Camp Lemonier in Djibouti, Africa, last year. And in November we opened a new store in Rota, Spain.

At sea, our ship store program takes care of sailors' living needs and provides funding for our float recreation programs. And our telecom program helps keep them in touch with home.

We support the families of our warfighters. When their loved ones are deployed or they are stationed overseas, our exchanges provide more than just a place to shop. They function as community hubs.

Navy exchanges, in conjunction with industry, sponsor health and safety awareness programs, celebrity visits and many family-focused events.

During the California wildfires last year, Navy exchanges were there as part of Navy disaster recovery, providing lodging and comfort items to evacuees.

Navy family members represent about one-third of our worldwide associates. We value their contributions, and our continuity of employment programs provide them flexible career opportunities.

We are proud to take an active role in supporting our wounded warriors and their families. Our Navy lodges provide guest rooms to wounded service members and their loved ones. Our telecom program provides free phone cards to the wounded at hospitals and aboard United States Naval Ship (USNS) *Comfort*. With our indus-

try partners, we have provided new furniture for hospital lounges and Nintendo Wii games for physical therapy departments.

But taking care of our warfighters doesn't stop when they retire from active duty. Retirees have earned their privileges, and the exchanges play a vital role in fulfilling our Nation's commitment to them.

Delivering quality of life programs is truly a joint effort. Together with the Navy MWR, we provide a seamless network of support to sailors and their families. We also collaborate with Army and Air Force Exchange Service (AAFES), Marine Corps Exchange, DeCA and our industry partners to find deficiencies and improve our program effectiveness.

Today's economic environment is affecting everyone. More than ever, we are committed to bring savings and value to our Navy families.

We have implemented tools to better understand our patrons and meet their ever-changing needs. In short, we want to delight our customers. Our 15,000 worldwide associates never lose sight of the fact that we exist solely for the dedicated patriots and their families who serve or have served our Nation and our Navy.

I take great pride in all that our associates do, and on their behalf, I thank all of the members of the subcommittee for your continued support and commitment. Thank you.

[The prepared statement of Admiral Bianchi can be found in the Appendix on page 95.]

Mrs. DAVIS. Thank you, thank you.

General Thurgood.

**STATEMENT OF BRIG. GEN. KEITH L. THURGOOD, USAR,
COMMANDER, ARMY AND AIR FORCE EXCHANGE SERVICE**

General THURGOOD. Madam Chair, Mr. McHugh, members of the subcommittee, as you noted, this is my first opportunity to appear before you as the Commander of the Army and Air Force Exchange Service.

So I would like to begin by expressing my sincere gratitude for your steadfast support in preserving a strong and effective exchange benefit for the men and women of the armed forces. And I look forward to working with you to ensure that AAFES continues to play an important role as a combat multiplier for the force and plays a significant role in improving the quality of life of our soldiers, our airmen and their families through quality products and services, that we give them at a fair price, as well as financial contributions to MWR.

While 2007 was a challenging year for the competitive retailers, AAFES continues to demonstrate that it is a strong and viable organization with the strategic resilience and financial health to compete in the global marketplace.

AAFES ended 2007 with \$8.7 billion in revenue and earnings totaling \$426 million, which represents a 27 percent increase versus fiscal year 2006. And for fiscal year 2007, AAFES will contribute over \$260 million in dividends to support MWR programs. This return represents the second highest dividend return to the services since 2002.

AAFES earnings not only provide dividends for the military community, they simultaneously fund its capital reinvestment program ensuring AAFES facilities provide shopping environments that are world class and a value that is undeniable to the military community.

In 2007, AAFES completed \$344 million in capital improvements at 57 installations worldwide, providing shoppers with 496 new or renovated retail, dining and service destinations.

Our military families deserve and demand the best service. Capital improvements are the brick and mortar of our strategy, but the foundation of our customer centered strategy is listening to, learning from and leveraging our patrons' collective input, as well as providing the product selections and the categories that they want and expect. So I would like to thank you and this committee for taking action to raise the cost limits on restricted merchandise.

I am tremendously proud of the AAFES associates for providing the services we deliver to both kinds of heroes—military and family members. Our 450 volunteer associates are working alongside our men and women in uniform, sharing some of the same risk, while providing a level of service unmatched in the retail industry.

At home, our AAFES associates are dealing with the impact of BRAC, huge deployments and tremendous competition in the marketplace. But more importantly, we are doing all of this while striving to meet the needs of the military family members, and in some cases, our associates are providing this critical service while their own children or spouses are deployed in harm's way. I am proud to play a role in furthering this great legacy of service and value to our military members and their families around the globe.

So on their behalf, I thank each of you and the entire House and Armed Services Committee for your continued support, and I look forward to answering your questions.

[The prepared statement of General Thurgood can be found in the Appendix on page 103.]

Mrs. DAVIS. Thank you.

General Larsen.

STATEMENT OF TIMOTHY R. LARSEN, DIRECTOR, PERSONAL AND FAMILY READINESS DIVISION, HEADQUARTERS, U.S. MARINE CORPS

Mr. LARSEN. Thank you very much, Chairwoman Davis, Representative McHugh, distinguished subcommittee members. It is really my pleasure today to be here, to appear before you and discuss the Marine Corps resale and MWR programs.

In early 2007, the Commandant of the Marine Corps directed the Personnel and Family Services Division to assess the organizational and support requirements necessary to place Marine and family programs on a wartime footing. In the ensuing months, we have listened to thousands and thousands of marines and family members, conducted critical program assessments, benchmarked with other service organizations, developed implementation plans and gained the support of the Commandant of the Marine Corps and the senior leadership of the Marine Corps to begin to implement improvements to Marine and family support programs.

We are now aggressively engaged in the execution of major program review and improvements that will refresh and enhance the care and services provided to marines and their families.

Additionally, we have taken actions to address specific program and infrastructure shortfalls at Marine Corps remote and isolated locations. These actions, coupled with our ongoing efforts to improve and brand Marine Corps exchanges, will enable the Marine Corps community services to be more responsive to marines and their families. They will be appropriately resourced. They will focus on meeting the current and future needs of the Marine Corps.

On behalf of the Marine Corps, thank you for your unwavering dedication to the marines and their families and your steadfast attention to our needs, and I have submitted my statement for the record and look forward to your questions. Thank you.

[The prepared statement of Mr. Larsen can be found in the Appendix on page 119.]

Mrs. DAVIS. Thank you, General Larsen.

Mr. Page.

**STATEMENT OF RICHARD S. PAGE, ACTING DIRECTOR,
DEFENSE COMMISSARY AGENCY**

Mr. PAGE. Madam Chair, Representative McHugh and members of the subcommittee, it is my pleasure to appear before you to provide the update of the Defense Commissary Agency's performance of the past year.

The commissary benefit continues to remain strong, providing exceptional savings and service for the men and women who proudly serve our great Nation. We had another impressive year in 2007, and once again our numbers say it all. Sales continue to grow, the cost of delivering the commissary benefit both in actual and constant fiscal year 2000 dollars came in under budget. Customer service and patron savings levels remain steady. Our patrons continue to believe we are doing it right.

Customers reported that DeCA strengths are perceived quality, perceived value, low customer complaints and customer loyalty. However, customer savings continue to be the heart of the commissary benefit. The savings of 31.9 percent amounts to almost \$3,000 per year an average family of four saves by purchasing their grocery items at their commissary. Of course, obtaining this level of savings would not be possible without the tremendous support our extended team of partners, manufacturers, distributors and brokers provide in the pricing and promotion of products.

For 2008, DeCA has four strategic initiatives: focusing on people, supporting the Guard and Reserve, going greener and increasing cooperation with the exchanges. We recognize that, to be successful, the agency must focus on a comprehensive plan that allows us to attract, develop and retain high-performing employees by expanding our talent pool. We are particularly interested in attracting individuals who have an investment in the military services and the commissary, and are targeting a variety of sources such as military spouses, wounded warriors and disabled veterans, students and U.S. citizens who possess retail experience.

Our Guard and Reserve efforts are twofold outreach, aimed at enabling members and their families to discover their benefit and

expanding their access to provide services to Reserve and Guard units that are not located at an installation where there is a commissary.

The initial effort comprises onsite sales at Guard and Reserve centers. We have scheduled over 120 of these sales in 2008, and by 2010, we expect that number to expand to over 400 onsite sales.

Our environmentally friendly efforts are on two fronts, those that affect our operations and those that affect our customers. For example, our recycling program for cardboard and plastic wrap netted \$3.7 million which went into the surcharge coffers in 2007. And customers embraced the reusable cloth grocery bags, purchasing over 750,000 of them since their introduction at the end of October 2007.

DeCA and the exchanges have entered a new era where we are actively seeking to cooperate and deconflict our programs whenever the opportunity arises. Recognizing the value of cooperation versus competition, the cooperative spirit between commissaries and exchanges has never been higher.

In closing, the Administration and operation of the commissary benefit has never been stronger. We recognize that commissaries deliver a highly valued component of military compensation, and they bring a morale-building taste of home, feeling of providing familiar American food products in overseas locations where such products are often unavailable.

The employees of DeCA are proud to serve the most deserving customers in the world, and we are particularly privileged to be entrusted with helping care for the welfare of the families of those who are serving in harm's way.

I will be happy to answer any questions you may have.

[The prepared statement of Mr. Page can be found in the Appendix on page 141.]

Mrs. DAVIS. Thank you, Mr. Page.

Mr. Baker.

STATEMENT OF JOHN BAKER, FLEET AND FAMILY READINESS PROGRAM DIRECTOR, NAVY INSTALLATIONS COMMAND

Mr. BAKER. Madam Chairman and members of the subcommittee, thank you for the opportunity to appear today to discuss Navy MWR programs. I have submitted a written statement for the record, but would like to mention a few initiatives before taking your questions.

Navy MWR professionals around the world continue their outstanding efforts to help sailors and their families sustain morale and readiness wherever they serve. Fiscal year 2007 was another successful year.

Navy MWR continued to provide fitness equipment and recreation programs to deployed forces at sea or ashore. We distributed more than 20,000 pieces of gear to the fleet, and of that distribution, 9,500 were distributed to 110 camps in isolated or remote locations around the world to support our vital off-duty military opportunities.

The Navy has also created a fitness-for-life initiative that reaches out to improve the health and fitness habits of the entire Navy community, including family members, Department of Defense

(DOD) civilians, senior civilians and retirees. This includes a world-wide youth fitness initiative called Fit Factor, designed to increase youth interest and awareness and the importance of healthy lifestyle choices.

The Navy MWR MILCON strategy includes \$96 million for three fitness centers and 76 million for five child care centers, all of which were included in the President's 2009 budget request. We have also launched an aggressive child care expansion plan by adding 4,000 new spaces within the next 18 months. This expansion includes construction of new child care centers, including 24/7 operations, commercial contracts in child care spaces and expanding military-certified home care. Combined with these initiatives we will reduce child care waiting time less than three months Navy-wide, with the first priority given to single military parents.

To assist parents and children with challenges of frequent deployment, an additional 100,000 hours of respite care is being provided for families of deployed service members. This type of care is critical to families who may not have needed child care in the past, but now rely on this interim support.

The Navy continues its investment in nonappropriated fund construction projects totaling \$65 million in 2007, which greatly improves the quality of our MWR facilities. We intend to sustain this level of support for the near future.

MWR continues to make a difference every day as we pursue investments in modern and popular recreational programs to meet the customer demands of the Navy personnel and their families. This investment will especially ensure a strong and healthy force for the Navy of the future.

Thank you for your time and ongoing support for Navy MWR. I look forward to working with you to continue to improve this vital program, and I am standing by to address your questions.

[The prepared statement of Mr. Baker can be found in the Appendix on page 158.]

Mrs. DAVIS. Thank you, Mr. Baker.

Mr. Myers.

**STATEMENT OF ARTHUR J. MYERS, DIRECTOR OF SERVICES,
HEADQUARTERS, U.S. AIR FORCE**

Mr. MYERS. Madam Chairwoman, Representative McHugh and distinguished members of the Military Personnel Subcommittee, thank you for this opportunity to talk to you about our Air Force MWR programs. Let me begin by thanking you for the tremendous support you have provided for the men and women of our Armed Forces and their families.

Our MWR programs sustain the Air Force mission and create a culture of community support for all airmen and their families. We proudly maintain the Air Force's number one weapon, our airmen.

Our efforts tie directly to Air Force success and combatant arenas and on the home front. 2005 base realignment closure legislation drove us to examine our programs closely, especially at the 10 locations where our Air Force programs will be integrated into a joint base configuration.

We have been fully engaged in developing the common standards for use at these bases. The quality of life of our military personnel

and their families should not be degraded. We should maintain the highest possible standard for MWR programs and, most importantly, fund them to those turnarounds regardless of who operates the base where they are located.

We appreciate the subcommittee's historical emphasis on the proper sources for realignment and closing costs and trust that your continued vigilance will protect the service members in the future.

As our partner in taking care of our military personnel and their families, I must salute my fellow witness, the new AAFES Commander, Brigadier General Thurgood. General Thurgood brings a wealth of knowledge and experience from the civilian industry and is providing outstanding leadership and support.

Their chief operating officer, Mr. Mike Howard, has a clear vision and unwavering focus that are successfully getting store-level management back to basics. Their combined efforts are providing a further shift and focus throughout the organization and are showing up as earnings and dividends continue to increase.

I have worked with many AAFES executive commanders over the years, but this leadership is undoubtedly the best.

I also need to thank Office of the Secretary of Defense (OSD) and this subcommittee for their continued support to grow child care spaces. In particular, Ms. Jane Burke at OSD was instrumental in obtaining emergency intervention funding in the last three years. Between these funds and the subcommittee's support for extending the expanded minor military construction authority through fiscal year 2009, the men and women of the Air Force will gain 2,400 additional child care spaces, all but three of them are in permanent facilities.

Thanks again to both of you for taking care of our families like this. I am extremely proud of our Air Force services personnel and the around-the-clock unselfish dedication to airmen and their families in every environment, from home station to contingencies in deployed locations. Our team could not do this without the support we get from the Military Personnel Subcommittee. Thank you for joining us in this critically important effort.

I will look forward to working with you in the future and welcome any questions you may have.

[The prepared statement of Mr. Myers can be found in the Appendix on page 172.]

Mrs. DAVIS. Thank you very much.

And thank you to all of you. You kept within that very short time limit well, and that will give us some time to really ask a number of questions. I hope we have a good discussion.

Members, I think we are going to try to stick to our five minutes and probably have a few rounds here. As you know, there are a number of events occurring, a very special one this morning. With the papal mass this morning, we have members who are attending that, and they are also at some other commitments that they have.

Let me start by looking at the appropriate funding support for our MWR programs; and clearly, there have been some great gains in areas—particularly in child care, I think, and we want to commend those of you who have worked in that area.

But as we look at the funding support as a percentage of total expense and we look at the last number of years, in fiscal year 2003, we actually were spending more than in fiscal year 2007, when we adjust for inflation.

So I wanted to ask you first, Ms. Arsht, given that figure that the Army, Navy and Air Force have spent less on our MWR programs during fiscal year 2007, what future does that suggest for the military community? Are we, in fact, having some slippage there?

And if I may, I will go on and ask a few other questions and then we will come back to you.

General Larsen, we know that the Marine Corps has actually had a fairly consistent approach to this funding, and we know there is a management philosophy that has tried to keep it that way. And I just wondered if you could tell us more about what accounts for that consistency within the Marine Corps.

General Macdonald and General Larsen, Mr. Myers and Mr. Baker, should we be concerned that there seems to be—if we just look at these numbers, if we look at the appropriated funds as a percentage of total expenses, is that a concern that you think the Congress should be focusing on and how can we be more helpful?

Ms. Arsht.

Ms. ARSHT. I think that it is true that there have been some small decreases, if you include inflation over this year span that you have looked at. But we are pleased that the fiscal year 2009 budget has a 20 percent increase; and I think that you have already heard, in the opening remarks, that there are longer-term plans.

So I think that each of the services should speak to their individual plans.

Mrs. DAVIS. Okay. Do you want to go ahead, General Macdonald, and talk to us about that?

General MACDONALD. I would love to, ma'am.

Like I said in my opening remarks, Secretary Geren and Chief of Staff of the Army Casey have made a huge commitment to Army families to the tune of an increase of \$700 million this year. They have moved, and as we put the next budget together, we are going to do that again and put it in the base, as opposed to just in supplemental or in moving year-of-execution dollars over.

So the actual execution dollars in a number of programs, which are represented by the Army Family Covenant, and their statement and signature around the world that says that they are committed to families just like families are committed to soldiers, I think is expressed in the number of dollars that we have expended in 2008, and we look to have in the budget in 2009.

Mrs. DAVIS. What concerns me about that is, because we are talking about shifting, what we see as a supplemental, into the base budget, that there will be a lot more demands on those dollars.

What kind—is there more flexibility that is required to be able to speak on behalf of the needs of the military community as it relates to your issues?

General MACDONALD. Let me try to answer your question this way.

When General Casey became the Chief and went around and talked to families and soldiers, they really said, "We don't need any different programs, we just need you to fund the ones we have." They are all very good—child care, Army community service, relocation capability, respite care, all of the programs we have in place. We just needed the money to do them.

So we haven't seen an increase in requirement, with one exception, and that is an outreach to our survivors, surviving spouses and children, and we are putting in a much more robust program to outreach to them, to push information to them, as opposed to having them pull it from us.

That has really been the only increasing requirement that we have seen. So we are just funding the programs that we had.

Mrs. DAVIS. My time is going to be up in a second.

But General Larsen, could you speak to the Marine Corps quickly?

Mr. LARSEN. Yes, ma'am.

The Marine Corps has been on a consistent ramp-up from about fiscal year 1996, so we have achieved the standards that have been set for funding those programs by OSD and for Category A and Category B programs, and we are there. We have also—we are committed to sustaining that level of funding for those programs.

Additionally, the Commandant of the Marine Corps in the past year has reemphasized the importance of those programs and provided the support to marines and their families, so we have gone out and refreshed many of those programs. Initially, he has—he has committed to funding them for the Marine Corps, and we are having an increase to our funding within the Personnel and Family Readiness Division.

And we will also—I believe there is some—it is not being taken away from other programs. There is some top line increase for those programs. And additionally, we have a significant increase in the funding in fiscal year 2008 and fiscal year 2009—that is through supplemental funding, but also in the Program Objective Memorandum (POM) 10 and beyond. Those costs, those requirements are in our baseline funding.

Mrs. DAVIS. Okay. I think we will probably come back to this and have an opportunity to have all of you state your opinions about that.

Part of the difficulty, of course, is that we see we have minimum standards that we are looking at; and part of the question is, should even those be raised? I mean, should we be looking at those differently and would that be helpful to you?

I am going to go on.

Mr. McHugh, do you want to—

Mr. MCHUGH. Yeah. We are going to come back to it right now, Madam Chair. I think the Chair was being very kind and very gracious.

We have had enormous erosion, with all due respect, Madam Secretary, a total throughout the services of that time of 200.2 percent when adjusted for real dollars, inflated dollars. The Army is 45.5 percent, the Navy 109.4, the Air Force, 67.1; the Marine Corps is the sole exception.

But those are big losses. I mean, we have to be honest about it. And I think it is important for us to understand the real-world impact of those losses.

Now, I recognize you good folks at the table today don't do budget, you deal with them; and I am not trying to cast blame upon you for the circumstances that you have been handed. But I would ask you—tell me a bit about, over that time—we are talking 2003 through 2007 inclusive, five years—which programs were most at risk? What services did you have to cut?

We have got five new folks here, so maybe you can speak anecdotally. But we have got some veterans, folks that have been through this. There has to have been some real-world impact.

Secretary Dominguez was here last year and said it was his intention to support the ongoing MWR efforts with, roughly stated, “increased emphasis, but the same dollars.” Sadly, he was a man of his word. I find it hard to believe we haven't had to have cutbacks in programs—fewer clean towels, whatever it is.

What kind of challenges have these real-dollar—adjusted for inflation, but real-dollar erosions had on your efforts? And anybody who has got the courage to answer first, I will listen to whoever steps forward.

Mr. MYERS. I will step forward.

Mr. MCHUGH. Thank you, Mr. Myers.

Mr. MYERS. At the Air Force, we have had significant budget cuts. We have seen our programs reduced across the board, at every one of our libraries, services have been reduced. We have seen in our other programs—and it is all a funding issue.

We have recently had a problem where we needed additional positions for child care and funding for equipment and supplies. We finally got it approved to be funded in 2009 and 2010.

However, Dr. Snyder brought up an issue that wasn't related to that. But because he brought up the issue, we got that funding now. So we thank the committee for their support.

But the Air Force is getting smaller, and it is a budget issue. We have to fight for all of our requirements and we are seeing our programs reduced dramatically. And the word we are getting from the field, the airmen are seeing in the Air Force that their quality of life is being eroded.

Mr. MCHUGH. Anybody else?

Well, let me say, Admiral, were you going to—no, you weren't. See, I told you I would be easy on you. It is your first time, and I tried to do that to you. I apologize. I am a lousy poker player, too. I thought you had a tell there.

Anecdotally, we have heard it across the services. Look, we all travel. Most of us have at least one, some have more than one base in their district, and we hear from the folks we meet on the street. Shorter hours in the gym program, et cetera, et cetera.

The point of this is—and I will readily acknowledge the commitment of Secretary Geren and others—in singling out the Army, but across the board, we are hopeful that we are seeing a turnaround in that. But there will be a new era and we will regularize this budget process.

There will not be a continued blessing, if you will, of supplementals. And while I admire budgetary creativity, there is a

big difference between moving money around and providing the money in a base budget and this is a critical oversight function of this subcommittee.

And we would be very remiss—Madam Secretary and the good folks who support these programs, I would say to you, if we didn't make it very clear, that this is a very, very troubling and, sadly, long-term, continuing problem.

I have heard much over the years about outyears. I have kidded in the past. I will state again that I pray every night when I go to bed, the good Lord will allow me to live just one day before I die in an outyear because everything is going to be wonderful.

But I have been here nearly 16 years, and I have yet to see an outyear as predicted it would be. So let us see our first one next year—certainly, real soon.

I have got a number of other questions. That was more of a lecture than a question, Madam Chair. But I felt it was important to say.

So I would yield back and look forward to the future rounds.

Mrs. DAVIS. Thank you, Mr. McHugh.

Mr. Kline.

Mr. KLINE. Thank you, Madam Chair.

Thank you all for being here today.

I hate to break this to you, Mr. McHugh, but you will never see an outyear. No, it is never going to happen. I remember in the long-distant past, when I was a program development officer for the Marine Corps—of course, when you are building, you love outyears because everything gets well in the outyear. Of course, when those outyears turn into budget years, it is not the case.

And I identify with yours and the chairwoman's remarks on another subject where times are changing and, apparently, changing for the better. A couple of you mentioned the Military OneSource Program. I have had the opportunity to view, tour and talk to some of the people that operate that; and I am struck by the breadth and depth of the things we are covering now—the questions that get answers, the services that get provided—and so I am just sort of throwing it out to any of you who would like to talk about that. Because I am interested to see how all of the services are going to, and are integrating into that.

But I just think it is tremendous when you have a spouse back here, a husband or wife is deployed, a problem comes up, they have one place to call and they get the answer. I have been very, very impressed with it.

So does anybody want to amplify on how that is working or how you are working together? I would like to hear from you.

General MACDONALD. If I could, sir, we are thrilled with it. Frankly, as you know, it started as Army OneSource, and then we had some Office of Personnel Management (OPM)—that is, other people's money—and OSD took that on. And it has been a tremendous program for our geographically dispersed, or for our families that are right on a post—that are just off post or on post.

That it has 140 languages that you can call in and get a translation instantaneously, helps our young Korean spouses and our ones from the Philippines and the ones that have immigrated, our Spanish-speaking.

It continues to grow in capability, most recently with addictive behavior counseling that is on line and on the phone. We advertise it everywhere. I go out and talk to all the brand-new precommand courses with colonels and lieutenant colonels; and I talk about it every time I go as a tremendous resource that I wish I had had when I was a battalion and brigade commander. So, a great resource, sir.

Mr. KLINE. Anybody else want to—

Mr. LARSEN. Sir, I would just like to comment. If I could. I use Military OneSource, so I know it works.

As I was coming back from Japan here a few months ago, Permanent Change of Station (PCS) and back, as I retired, my wife had a number of questions about the area. I got on line and I contacted Military OneSource, gave them a whole series of questions we had, and they responded very quickly.

So this is a great asset, and it has got great potential, particularly for remote and isolated locations. The independent duty recruiter, Reserve people that are not connected directly to a base often have an opportunity to get the services they need, and we have had several thousand face-to-face counseling sessions that have gone on at the recommendation of Military OneSource to our people in the field who have contacted them.

Ms. ARSHT. I do want to say—and, General, forgive me for a second.

This is a program that we continue to make more robust. We are constantly adding services to it because we think this discussion about how we are serving the volunteer force, both on installation, off installation, and around the world, needs technology to help us drive our responses. So Military OneSource is sort of the lead asset that we have to be able to bring lots of services together and to be able to deliver them efficiently.

Mr. KLINE. It seems to me—General, I think you were going to say something. But it is more than just technology; there are people behind this.

And I know, General Larsen, you were talking about coming back. As I understand it, if you are being transferred someplace, you can call up OneSource and say, where are the schools, what are the schools, where are the child care centers, what does the housing market look like and all those things, and get the kind of help that in the old days we simply didn't have.

So it should be having an impact on the quality of life in every service, and I hope that it is.

And, General, was that a "tell," as Mr. McHugh said?

General THURGOOD. Yes, sir, it was. Just to highlight, again, an anecdote.

As my wife has worked with our families and family support groups specifically on the Reserve side, there are real-life tangible benefits, physical benefits. We had a family, a wife—her husband was deployed. She needed a refrigerator or an oven; I can't remember which one it was. But she went through OneSource, and through OneSource they had contacts from our industry partners, and they delivered a stove to that family free of charge. So it is a great resource.

And as General Macdonald mentioned, it is particularly important to our family members, reservist and National Guard who are away from our facilities in robust support groups, by themselves.

Mr. KLINE. It is a new thing to me, and we always think of MWR and quality of life as commissaries and exchanges and so forth. This is something new. And I am struck with the enormous potential—not just potential, but it is actually delivering right now, in your example, a stove.

I see my time is up. Thank you, Madam Chair.

Mrs. DAVIS. Thank you.

Ms. Drake.

Mrs. DRAKE. Thank you, Madam Chairwoman.

And thank you all for being here today. I am sure you are all aware of Representative Filner's bill about allowing disabled veterans, service-related disability of 30 percent or more, being able to use our commissaries and exchanges. So I just wanted to hear from you if you think you can absorb that extra flow of people or if you see anything that would be a problem with that bill?

Who wants to start?

Ms. ARSHT. The Department has generally tried to protect the current eligibility looking at this benefit as a very important non-monetary compensation attribute for our active force and our 100 percent disabled.

We have—the most recent information we actually have on the scale of the size of that change is a VA study that was done in 2000 that said there were 600,000 service members in the 30-to-90-percent-disabled category. And then, if you took the dependents of those disabled, you take that population, they do not have base-access I.D. cards. So that is a component of the decision-making around that bill.

We have not taken a position on the bill, but that would be one of the considerations that we would have to take into account.

Mrs. DRAKE. I wonder—like, Admiral Bianchi—if you have thought about, could the store absorb the extra people? I understand the policy decision, but I am just wondering about physically in the store, whether people make a decision at certain times to go because they know they are less busy at those times, or if you have actually looked at that issue, where you are waiting to see if Congress acts on that bill or not?

Admiral BIANCHI. Ma'am, we believe we could absorb the extra patronage. The issue is kind of the holistic issue of the credentialing and all the other issues that would have to go along with it.

But as far as footsteps in the door and the capacity of our infrastructure, we believe we could absorb the impact of that decision.

Mrs. DRAKE. And I agree. A huge issue is how they verify who they are, and for commissaries and exchanges that are located on a base, how you get them on the base.

And then the big question in my mind is, what is the appropriate percentage? Is it 30 percent? Is it 50? Is it 100—to look at that issue.

Admiral BIANCHI. Right now, we base it all on Defense Enrollment Eligibility Reporting System (DEERS), so that would entail them being registered through the DEERS program somehow or

coming up with some other enrollment process to validate their eligibility.

But if it worked, we could certainly absorb the after traffic.

Mrs. DRAKE. I have actually had this discussion with a group of veterans, kind of an advisory group that we have. A lot of retired military are in that advisory group in the district. They actually were very supportive of it.

Their question was, what is the proper number; is it 30 or is it 50? So that was the way they looked at it.

And I am curious if there has been any sort of survey of active duty military of how they would look at that. Have we gotten to that point or not of getting feedback from active duty military?

Ms. ARSHT. I don't believe there have been any studies of active duty, but I will be glad to take that for the record.

[The information referred to can be found in the Appendix on page 205.]

Mrs. DRAKE. Thank you very much for that.

And, did—oh, Madam Chairman, I see my time is about expired, and I know we will go back around. Thank you. Thank you very much.

Mrs. DAVIS. Thank you.

Ms. Tsongas.

Ms. TSONGAS. Good morning. It is good to be here.

What you don't know is that I am the product of the military. I spent all but three years of my education in military schools, I lived on bases across this country and around the world. And as I hear about library, I remember, well, at Langley Air Force Base being first introduced to the world of books.

I remember well the role the commissary played in my family's life and, living in Japan, how important it was to have an exchange there because it was our only access to American goods. And my first job happened to be in the produce department of the commissary in Japan where I reported to a very kindly Japanese man.

So I have this sense of what you all are talking about, though quite a few years ago.

What has changed, though, is our emphasis on child care. That is a new world that we all live in, and I commend you for the great work you are doing to really respond to the needs in the various services. The question that I have, though, is how—given the great run-up on this and the aggressive efforts you are making, how you are doing in attracting qualified personnel, what the challenges are and just to hear your feedback on some of those issues.

Maybe we will begin with you, General Macdonald.

General MACDONALD. Thank you very much.

We have a multipronged capability for child care. We are going to build 91 child development centers from 2008 to 2013. But they don't do any good unless you have people in them, as you well know. We have a program where we bring young college interns over to Europe to help us through the summer, and they run camps and also work in our child care centers. We try to align that with when brigades are coming back, because many of our child caregivers are family members and they want to be with their soldier when they come back. So we align that sine curve, if you will, of intensity with a population that is very mobile.

We continue to—in this most recent budget proposal, we are looking to raise the wages of the folks that were to attract the right folks. Frankly, we are in competition with the Post Exchange (PX) and the commissary to get quality child caregivers when there are family members and folks that live in the community. So we need to stay abreast of that capability; and we have all talked about not outpacing each other in that capacity.

As you know, we are accredited in almost all of our child development centers, and that is individuals that are accredited, not just buildings. So we think we have a quality child care workforce that provides a very high quality of child care.

Ms. TSONGAS. Do you have any guesstimate of how short you are running on numbers of personnel that you need?

General MACDONALD. I know we have a couple of places that are short. Vilshofen in Germany, in particular, we have a tough time. We have a couple of others that are remote sites. Fort Irwin in California has a tough time to travel that 47 miles up the road every day to get to Fort Irwin.

But, really, it is specific locations, and in those we have raised the wages to attract the workforce that we want.

Ms. TSONGAS. Would General Larsen like to comment?

Mr. LARSEN. Yes, ma'am.

We have a variety of methods that we use to deliver the child care on our installations. We have right now, I believe, 29 child development centers across the Marine Corps; to get to the 80 percent standard that has been established, that would require that we build another—about 16 more to meet that need for the child development centers. If we do that, then there is obviously going to be a staffing issue that we have to deal with in some of these locations.

But, currently, we haven't had a problem. We have—we have been able to staff the facilities that we have. There are some other options that we also participate in to make sure that we can provide that care. We have family care in the home, which is not a traditional child development center, but we do it, we provide that in other ways.

We also in places like Bridgeport, California, this past year, started—they had a requirement for child care. It is a very isolated location, so we have an in-home care system that we set up. What we did is, we went to the public-private venture (PPV) people that owned the housing and we leased back some of the housing units and turned them into a facility that we now use for child care; and we are taking care of about 84 to 86 children in that area which, prior to that, had no access to child care. So there are a variety of things that we are doing to try to meet that need.

Ms. TSONGAS. I gather there was a mention of moving to 24-hour childcare across the services. What are the challenges.

Mr. LARSEN. Well, for the Marine Corps, we are providing 24-hour/7-day-a-week childcare in some locations across the Marine Corps.

A couple of challenges associated with that is we provide that care in the family home-care setting. We do not provide it in the Child Development Center (CDC) because, in many locations, in different states, there are regulations that prevent us from oper-

ating childcare for more than 12 hours, so that 24-hour care becomes an issue, and so we do that in other ways to meet that need.

Ms. TSONGAS. Thank you.

Mrs. DAVIS. Thank you.

Dr. Snyder.

Dr. SNYDER. Thank you, Madam Chairman. I am sorry I was late in getting here. I want to continue this discussion that Ms. Tsongas started.

Mr. Myers, you and I share a great concern about the childcare centers. There are a number of centers in the Air Force, and I very much appreciate your advocacy.

The Air Force, I think, has fallen a little bit behind some of the other services just because of some of the budgetary issues. Would you give me an update on how you think the Air Force is going to get out of their backlog of the need for additional childcare spaces, centers?

Mr. MYERS. Several years ago, our backlog was around 6,400 spaces, but through OSD and this emergency intervention funding, we got that down to 4,000. Of course, we have expanded our family daycare homes and so forth. We do have several projects in the POM. However, I also depend on Congress to help us with inserts, and they have been very, very good to us and have given us inserts for child development centers.

Dr. SNYDER. Is that what we call an earmark? Is that what we call an earmark, Mr. Myers?

Mr. MYERS. Yes.

Dr. SNYDER. I think you and I talked yesterday. We do not call that "pork" when you are referring to a childcare center. You refer to it as a "piglet." It is less politically hot then when calling it a "piglet."

The issue of childcare centers, like Ms. Tsongas was talking about, are even more important at a time of war when you have one spouse mobilized. You know, if you cannot rely on quality care for your child when you have got your mate overseas, life becomes pretty rough. I know there has been some discussion about the possibility in the supplementals this year of perhaps doing something about childcare centers, particularly for the Air Force, because we have gotten behind. I talked to Mr. Murtha about that a day or two ago, and I know he shares our concerns, and he is a very strong supporter of those, but we will see what comes out of that.

I have to ask my annual or semi-annual question about produce.

Mr. Page, are you the appropriate person to ask there.

Mr. PAGE. I am the designated produce peach.

Dr. SNYDER. You are the head peach?

Mr. PAGE. Yes, sir. Yes, sir.

Dr. SNYDER. My impression seems to be that it has gotten better over the last several years, both in terms of quality but also in terms of presentation, which, I think, has positive ramifications on overall store sales, but I would like to hear how you see it nationwide.

Mr. PAGE. Yes, sir.

We believe it is a tremendous success story. We have now completely assumed the produce buying mission worldwide.

Dr. SNYDER. Mr. Page, I need you to pull that microphone in front of you a little bit.

Mr. PAGE. Is that better?

Dr. SNYDER. Yes.

Mr. PAGE. I believe it is a great news story. We have successfully taken over the buying mission worldwide for produce. When you look at the numbers, they are spectacular. Savings are up. Produce quality is up. Customers are buying produce at record rates. Our sales are significantly up. For us, when customers vote for us at the cash register, in that way, they are really responding to what we have done.

Most importantly, you mentioned presentation. When you look at part of the process and part of what we have done with the contract in produce, part of that is a significant training investment that our business partners have made to help train on the merchandising of the product and on the proper handling of the product. That all goes into that presentation you mentioned earlier. Again, our produce departments are better than they have ever been, and our customers are telling us that every day.

Dr. SNYDER. What is your quality control on the quality of produce? Do you, personally, send people out to spot-check all of the produce on a regular basis?

Mr. PAGE. Yes, sir, we do. We do checks ourselves, but we also—the United States Department of Agriculture (USDA) inspects every produce delivery that goes into every commissary in the Continental United States. We also have inspectors at the backdoor of every commissary as the produce is being received. Plus, with the heightened involvement of our partners in training our people on the handling of produce, we are better able to make sure we are getting the very best produce possible.

Dr. SNYDER. My time is about up.

I think one of the issues has been the quality of stuff coming in the door. But I do not care how good it is; if you let it sit there for three weeks, it ain't going to be good. It is not going to look good. Then somebody goes in and sees that bad stuff, and then they think everything in the store is bad.

Mr. PAGE. Yes, sir.

Dr. SNYDER. It could be cereal boxes. It does not matter what it is. I mean, that is why it becomes so important. Thank you.

I appreciate and thank you, Mr. Myers, for your comments, too.

Thank you, Madam Chair.

Mrs. DAVIS. Thank you, Dr. Snyder. Thank you.

I want to turn to what, in some ways, is a narrower issue than much of the support that we are giving our service members, but it is one that comes up to us frequently. Those are the ASE regulations, the Armed Services Exchange regulations. What I understand is that the House and Senate perspective on the sale of furniture in our exchanges did not necessarily match up with the request to lift all of the restrictions imposed by the Congress in these regulations.

I am wondering, you know, what your thoughts are about that and whether you believe that you are using the latitude that you do have, particularly that would relate to the area of furniture sales and opportunities that there may be to bring in more, wheth-

er it is catalogs or tent sales, what have you. The reason that I think this is a concern is that we know that much of the furniture that is bought on the open market ends up costing our service members a lot more because they are paying higher interest rates. I understand the concern that we have for protecting our community stores as well.

Do you have the latitude that you need in that? What could you share with us in terms of the regulations and the impact that it has?

General Thurgood, Admiral Bianchi, Mr. Larsen, who would like to——

Ms. ARSHT. Let me say, first, that we are very grateful for the lifting of the restrictions that has occurred, and we are using that new authority, and we are very pleased with it. We do not have plans to ask for a further lifting of the restrictions, which at this moment says that we cannot add space, additional space, for furniture sales. I think the commanders can speak to the rest of the question.

Mrs. DAVIS. I think part of the question is, are there some creative ways that you have found in which you can respond to some of those needs?

General THURGOOD. Again, thank you very much for the work that you have already done on lifting some of the restrictions. We will continue to leverage those restrictions and to use them in the right kind of way because, at the end of the day, what we are trying to do is to compete in a global marketplace. Any time our hands are tied, there is a chance that our service members and our families will not get the value that they deserve because of some restrictions that might be in place. So we are going to use that—jewelry and all of those kinds of things—to make a difference in the lives of our families.

So thank you very much, and we will move out against those.

Admiral BIANCHI. Yes, ma'am. Thank you as well for the relaxation of some of the restrictions.

I guess the only other thing I would offer right now is that the per-piece limit has been raised to \$1,100 from \$900, is the proposal. We believe that will make a difference. We do a lot of special orders. So, in terms of having the authority to construct space, that is not as critical an issue. I think the issue is, can we provide the range of products? What we try and do for the sailors and for their families is to offer them the special order categories, and we do quite a lot of business there. If there were potentially an opportunity to raise the price limit again on furniture, that would, perhaps, help. I mean, the reality is folks are going to furnish their houses. Right now, they are probably going to the Value Citys or to other places to buy if we are not authorized to sell the whole range of bedroom sets and other kinds of things.

We think we can do quite a bit right now, and we thank you for that. That would be the only other, I think, opportunity that might present itself to us.

Mrs. DAVIS. Thank you.

Just turning—I am sorry. Mr. Larsen.

Mr. LARSEN. Can I just make a comment as well?

You know, the Marine Corps also appreciates the fact that you have lifted some of the restrictions or have raised the restrictions. We are interested in taking care of the Marines and their families, and we are not trying to compete with small businesses outside the gate. That is not why we operate the exchanges.

What we are trying to do is to provide a good value for our people. As you indicated, what we are trying to do is make sure that they are not subject to some of the predatory lending practices or high interest rates or other things that may have an adverse impact on their financial well-being. So that is what we are looking for, to try to take care of those Marines and families.

Mrs. DAVIS. All right. As you mention that, too, I think, obviously, financial literacy is an issue that is very important, and there seem to be many ways to embed that within MWR and to encourage people to have an opportunity to really get counsel and to help them through what is, obviously, a very difficult period with families separated.

Mr. McHugh.

Mr. MCHUGH. Thank you, Madam Chair.

I spent a lot of time lecturing everyone in my opening question period about the erosive effects of inflation on dedicated MWR dollars. Let me note to myself and others on this side of the dais that inflation has an effect on ASE restrictions as well. All of us represent communities that have those small businesses, and I think we have been and we need to continue to be very sensitive to those.

What I find outside of most gates of most military facilities are less of those kinds of small businesses and more of the big box stores that are voracious competitors. I say that with a great deal of admiration, the strong capitalist that I try to be, but I do believe that we have to, as a panel here, be extraordinarily sensitive to the needs to keep up with inflation and to keep up with that competitive spirit that the big box stores bring so that our men and women in uniform can have the best possible value, as the Chair said very accurately, with the attendant benefits of lower interest rates and other kinds of consumer protections. So that is just a "me, too" from me.

One of the other effects, I think, you folks have when you are hard-pressed for dollars is you try to be creative. In another life in Congress, I had the opportunity to chair a subcommittee that had jurisdiction over the United States Postal Service—I always get the good assignments—and they tried to be very creative to try to balance some of the funding problems they had. They got into some areas that, frankly, they should have never ventured into, and it ended up costing them more money than they ever brought in in revenues. I think we have got to remain vigilant against that.

You know, almost 30 years ago, the Army Recreational Machine Program (ARMP) was created to operate slot machines and other such devices in overseas countries, and it has been a good money-maker. About \$120 million goes to MWR support. I have heard through the proverbial grapevine that ARMP has been expanded and is expanding its scope of business activities here in the United States and Continental United States (CONUS), such things as Wi-Fi and gaming and other kinds of Internet, on Army and Air Force bases.

I was just wondering if you could inform me a little bit about what is happening there? Without judging, what kind of analysis did you make to decide you should do that in-house instead of going to the private sector as we have in other programs?

General MACDONALD. Sir, we are expanding the Army Recreation Machine Program, and it is on the recreation side with Internet capability. There is no money that goes into the machines like overseas in our slot machines. We are not authorized to do that in the United States, so these are truly recreation machines. We are finding young soldiers are enjoying that as entertainment. In fact, to make our recreation facilities more viable, we are putting four or five different kinds of activities—a cyber cafe, a gaming room, a beverage store, a beverage bar, food, a bowling alley, and maybe a dance facility—because the youngsters will not stay for one thing. They are very interested in multiple things. So we have had good luck in being able to do that.

We feel like we are on the leading edge of the gaming industry. We have pulled down some of the games. We use our young soldiers to find out what we want the most quickly. Right now, we are continuing to move forward with how we do that, to include some of the Internet capacity on post.

We are looking at a team with AAFES on the Internet Wi-Fi capability on post. That is certainly lucrative in terms of dividends back into the MWR and into the AAFES programs.

Mr. MCHUGH. I understand that, and I am not trying to discourage new sources of revenue, believe me. I am just curious—and this is a question. Could you not provide that service and that opportunity and reap the benefits without the attendant costs and the responsibilities of actually running the program? In other words, is this really your core competency?

General MACDONALD. We have found from the other Recreation Machine Program that we are some of the most efficient at running that. We deal with, on the other side, the folks in the gaming industry, and we lead some of that industry. We did some of the firsts that did not do mechanical pieces to gaming. It is all electronic inside a machine, which increases—reduces overhead.

So the answer to the question is, yes, we think we are on the lead of some of that industry.

Mr. MCHUGH. Well, I do not know if AAFES wants to make some comments, but I would just, in closing, as I see my time is up, this is something I was unaware of. As I said, we want to make sure that you are using your core competency where it is most needed. Again, I am not in any way criticizing the search and the utilization of new revenue sources, but I do want to take a little bit of a careful look at this because I have not had a chance to examine it before.

Mr. Myers, I do not know if you want to comment.

Mr. MYERS. I am not familiar with our charging for that. You know, we have Wi-Fi in our activities, which our airmen use for free, but I am not aware of any payment or things. I will have to come back to you with that.

Mrs. DAVIS. Thank you.

Mrs. Drake.

Mrs. DRAKE. Thank you, Madam Chairman.

Mr. Page, I wanted to ask you about the A-76 studies. It is my understanding that you have been directed to identify four stores to undergo a study next year. So I wonder if you could comment on that and could let us know if you have identified the four stores.

Mr. PAGE. We are in the initial planning stages in the event that we would have to commence studies in 2009, but there have been no definite stores identified. We have some internal planning documents that we are just, actually, working through. Again, come January 2009, based on current guidance, that is when we will begin the studies, but there have been no decisions.

Mrs. DRAKE. It is still possible then that that could be withdrawn?

Mr. PAGE. They are all just internal planning documents. There have been no final decisions made on any subject regarding the stores and A-76, but we are initializing the planning to prepare in the event, when January 2009 comes, that we must start the A-76 studies.

Mrs. DRAKE. I am sure you could give us a whole list of the benefits of the current system as opposed to contracting out employees, so I will not make you do that. I know we feel very strongly about the employment of spouses and of family members, and we heard about your first job in a commissary. So I just think that has a lot of benefit added to it as well to provide those jobs within our commissaries to our family members.

So I am sure you will keep us posted on what the outcome is and whether you are going to actually do those studies. I would also like for you to tell us where those four studies will be when you are able to identify that.

Mr. PAGE. Thank you.

Mrs. DRAKE. Thank you for that.

I just would also like to add to what the chairwoman and what Mr. McHugh have brought up about the cap on the sales, the \$1,100.

Admiral, of course, you know, you showed me the Oceana Exchange right at Christmas time. I want everyone to know that I could not find another store where I could have gone and could have bought as many things in one place. It was very difficult for me at Christmas time to be looking at what was right at my fingertips, and I had to go to several stores to make those purchases.

You used the term "savings and value." What I saw is that you have got two other things, too. That is you have got convenience, and you have got the confidence of our service members that, when they are buying a product from you, they know that the value is there, and they know that the quality is there.

So I really hope we will continue that discussion, and we will continue trying to change the Senate's opinion on how those things are done.

So thank you, Madam Chairman. I yield back. Thank you.

Mrs. DAVIS. Thank you, Mrs. Drake.

Ms. Tsongas.

Ms. TSONGAS. I think, General MacDonald, this will be a question for you.

I recently was in Afghanistan where we met with our soldiers and had a wonderful meal. In the course of a discussion with an

officer there, he said he was very frustrated with the purchasing restrictions, and that he felt it would be a more prompt and efficient way, and that it would also support the Afghan economy if they could go out into the market and buy produce and other things that were available.

I am wondering why that does not happen, what the constraints are and what the concerns are because it seems to me it would be more timely and that it would perhaps help support an economy in a country that is suffering so. We all understand how much we have to help rebuild that country in order to be successful in the long term. So I would just appreciate your comments on that.

General MACDONALD. Unless I can get some help from my panel members, I am going to take that for the record, ma'am. I really do not know the answer on that at all. I am not seeing any accepting of this question, so I will take that for the record.

Ms. TSONGAS. I will take it for the record. Thank you.

[The information referred to can be found in the Appendix on page 205.]

Ms. TSONGAS. The other thing we heard about from many of the soldiers was that we all know the impact on their families through these multiple deployments. There were great expressions of just how hard it has been. They also expressed a desire for video conferencing that is easier, that is more readily available. They saw it as a real means to sort of feel closer to their family members in order to make it easier for them as well as for their loved ones back here in this country.

Again, I do not know what is possible, but I just want to take what I heard and communicate it to you because it was something that I heard from many, many of those we spoke with.

Ms. ARSHT. We do expect to have that in Afghanistan soon. It is coming.

Ms. TSONGAS. That is good to hear. Thank you.

Mrs. DAVIS. Thank you.

Dr. Snyder.

Dr. SNYDER. No. I am fine.

Mrs. DAVIS. Okay. Great.

One of the issues I wanted to raise is the exchange dividend contributions to MWR.

With the exception of the increase in Army and Air Force exchange service dividends in 2007, if we look at the review of the dividend contributions to MWR from the exchange, it looks like they have been declining or have been stagnant since 2004, notwithstanding what is really a steady growth in sales. So I wonder if you could talk to us about that. Private sector competition obviously plays a role in this.

General Thurgood, Admiral Bianchi, Mr. Larsen, what should we expect regarding dividend contributions to MWR over the long run?

General THURGOOD. Ma'am, let me start first.

You used two words in the beginning of your statement, "confidence" and "growth." I think, if you had to pick two words in the way we want to take the dividend stream, it would be around those two words.

We want to instill confidence in our customer base—the Army, the Air Force, the Navy, the Coast Guard, and the Marines—that

we will deliver on our commitment to the dividend stream, and we want to grow that dividend stream.

From an AAFES standpoint, I think what you will see realistically over the next two years, meaning 2008 and 2009, as we start to pay for our technology that we have been developing for the last four years, is that we are going to have to capitalize that over the next five years. I think, in 2008 and 2009, you will see it flat to slightly declining, but our strategic target is to deliver record earnings to both the Army and to the Air Force by 2012. Our target is to deliver \$200 million to the Army and \$100 million to the Air Force by 2012. You will see that, as we try to create a culture of ownership, a culture of entrepreneurship, and as we drive our performance throughout the organization in a way that—

Mrs. DAVIS. What do you think gets in the way of that now?

General THURGOOD. Our culture. And there are a couple of things, I think, that are important to note.

One is, we have got to create in our organization, as I mentioned, a culture of ownership where our associates at the very lowest level of our organization own this business so that, when customers come into one of our stores, they come in because we are creating a different in-store experience for them than we have ever had before. They are coming in because they know the value proposition is so clear that they want to shop at our stores. Now is the time for us to strike hard because of the economy, and it is important that we do that right because, just from a directional point of view—and I will use Fort Hood as an example.

In 1970, around Fort Hood—and these numbers are not 100 percent right, but they are directionally correct to tell the story—70 percent of our families lived on Fort Hood. There were no Wal-Marts, and there were about 100 shopping venues outside the gate. Families were not a high priority for us. Today, 70 percent of our families live off post. There are 6 Wal-Marts around Fort Hood, and there are 1,000 shopping venues.

And therefore, for AAFES to continue to drive and to deliver a dividend stream, we have to, as I mentioned earlier, be very effective marketeers. We have to realize that we compete in a global marketplace. And to the extent that we can drive productivity in our supply chain and glean that out, those dividends fall directly to the services.

So our commitment is consistency so that the Army and the Air Force and the other services know exactly how much they are going to get. We want to commit to that number, and we want to grow that number over the years. I think you will see that as we lay our strategic plans out.

Mrs. DAVIS. In 2007, there was a spike.

General THURGOOD. There was.

Mrs. DAVIS. And then you have a prediction that is quite a bit lower than that. To what do you attribute that? What was going on?

General THURGOOD. Let me address 2007 first.

In 2007, we had historic productivity in our enterprise. We delivered over \$140 million of productivity, and that was driven, as Mr. Myers mentioned—and he made these nice comments about the leadership, but it is really about our folks at the bottom line mak-

ing a difference. So we were smarter purchasers of everything. We spent about \$7 billion a year on cost of goods sold. We purchased better. We had supply chain efficiencies in terms of how we optimized our distribution network on the logistics side. Our employees were much more productive than they were before. So we are taking all of those things that we learned in 2007, and we are going to duplicate those in 2008.

All of that productivity will not be enough to overcome capitalization and depreciation for our new technology. Once we get that employed and fully leveraged, which will take us about 18 months, you will start to see that dividend stream.

Mrs. DAVIS. So that would really speak to the decline in expectations that you have for 2008?

General THURGOOD. Exactly. Yes, ma'am.

Mrs. DAVIS. Does anybody else want to comment really briefly? Admiral Bianchi.

Admiral BIANCHI. Yes, ma'am.

I would say that I am, actually, very proud of our track record over the past years. I think, if you look at the exchange operating profit, which is really the money the exchanges are earning and delivering, it has had an upward trend throughout this period. That is in an environment where we have a decline in active duty force. We have had same-store sales increases for the last nine years. Our customer satisfaction score has been on a steady increase. We just hit 80 this year, which puts us up with the likes of Nordstrom and Saks and so forth. So we are very pleased in that regard.

What has actually happened that has caused some of the vagaries in the dividend is sort of the below-the-line things. We have seen during this attendant period a 30-some percent increase in medical costs. We have seen issues like Mount Pinatubo adjustments and other sorts of, again, extraordinary-type expenses.

I think what you will see in the outyears is that we are projecting—for Mr. McHugh there, I know he made his comment about the outyears, but we do believe strongly that we will see increased dividends. In fact, the numbers we submitted to your subcommittee will show us growing by about 37 percent in the dividend earnings throughout 2013.

Again, I think, if you look at the basic business, we have been on a very solid, positive trend over the years. Again, it has been these expenses which we have tried to rein in, and we are doing this again in the midst of a declining active duty Navy population. So I think we have been—

Mrs. DAVIS. Mr. Larsen, do you want to add anything specifically? I know my time is up. I wanted to just give you a very quick chance.

Mr. LARSEN. Yes, ma'am.

Very quickly, the Marine Corps is aggressively undertaking a recapitalization program. This year, we renovated three of our major exchanges. There are several others that are either going to be renovated or have new construction within our capital budget and within the funds we have for our construction program.

Additionally, we also are looking at our customer surveys and are making sure that we are providing a good benefit and that we create an atmosphere where there is confidence so that people will

want to come in and shop with us. So we feel confident that we are going to continue to provide a good dividend to support the programs we have.

Of our programs, probably the biggest driver is our exchange, but we also have other revenue-generating programs that we have refreshed that we are looking at that we decide how we are going to see how they can sustain themselves in the future. So we feel confident about moving ahead.

We thank AAFES for the additional dividend that we receive from them for our sales that we have in Afghanistan and in Iraq with them.

Mrs. DAVIS. Thank you.

Mr. McHugh.

Mr. MCHUGH. Thank you, Madam Chairman.

Back in 2007, Secretary Dominguez issued a letter that was important for a number of different reasons, not the least of which was that it established a policy that appropriated funds would have to be used from non-appropriated funds (NAF), not appropriated funds from construction related to BRAC and to global rebasing, which is a big, big challenge. I think that was the right thing to do.

The concern, of course, is how we go about implementing that policy given the fact of the NAF construction impacts of that rebasing. BRAC is going to be awfully high. I have seen one estimate of \$700 million. I do not know what the real estimate is. Thus, my question to you, Madam Secretary, is, do you have a number that you have looked at? What kind of things do you think you need and can or have done to try to provide that appropriated funding? I mean, you know, we have got to be open-eyed about it. It is a tremendous impact on the available appropriated dollars—

Ms. ARSHT. Right.

Mr. MCHUGH [continuing]. As correct as I feel the decision was.

Ms. ARSHT. Well, I want to say first that, at the staff request, we provided a listing of projects that were planned for installations that were growing, but that list did not represent a validated list of requirements because of BRAC and of global restationing and of other service-directed decisions. So I think that is the first thing to say, that I think that is where the \$700 million number may have come from.

There has been this period of sort of relooking at what the proposals were. The fiscal year 2008 Commissary and Appropriated Fund program did not include any projects that were BRAC-required. We see in the President's budget proposal about 29 projects at \$281 million that have been validated, as necessary, as part of BRAC or restationing.

So we did think that by restating what is a longstanding policy that we have brought a discipline that would be sure that we were using nonappropriated and appropriated funding sources in the way they were intended.

Mr. MCHUGH. Well, I appreciate that.

Again, when I talk about the erosion of appropriated dollars to MWR and when I talk about these kinds of less-with-more perspectives, it is not to criticize anyone here. I mean, we are under an enormous challenge, and no one knows that better than you good

folks. What I worry about is a good policy that we are just not able to live up to. In fact, from 2004 to 2008, if you look at the number of NAF construction waivers that have been requested, it is about 40 percent of all of the projects being completed. You know, I think it is fair to say that is kind of an overreliance on waivers. This is more of a statement than a question. We, obviously, have to do some things very differently to adhere to that policy and to reduce those numbers of waivers.

You are certainly welcome, Madam Secretary, to comment, but I think that is a challenge you are fully aware of, and I am sure you are very interested in meeting it. As I said, it is something we are looking at very carefully or are concerned about.

I do not have any further questions right now, Madam Chair. I yield back.

Mrs. DAVIS. Mrs. Drake.

Mrs. DRAKE. Thank you. I just have another topic.

Is it true that the Department of Defense has issued a ruling that you would be required to pay post allowance to all U.S. citizens whom you hire to work overseas?

If so, does that apply to people who already live overseas, or are we only talking about people who are hired here and who are then transferred overseas?

Ms. ARSHT. No. It includes local hires as well.

It is a policy that has been in place since 1995 when the Department reviewed the treatment of appropriated fund and non-appropriated fund employees and ruled that they needed to be parallel. There has been a misunderstanding and perhaps an uneven application of the understanding about the policy. So this recent letter was to clarify that the services are required, as a benefit, to pay this post allowance.

The second part of that letter said there would be a policy memo coming to explain how we would treat the backpayment and how employees who were entitled to that benefit would apply to receive that backpay.

Then the third part of the memo from Mr. Dominguez was to ask for an expeditious review of the policy to make certain that it is an appropriate policy for a 21st Century workplace. So that review will proceed. For now, the policy is in effect, and the services will need to pay it.

Mrs. DRAKE. Well, that raises a couple of other questions.

First of all, do we know what the cost of that is going to be yearly for you? Do we know what the retroactive costs are going to be?

If I am understanding you correctly, what you have just said is, if a military family is in Virginia Beach and the spouse works for Admiral Bianchi, she is going to be paid the regular pay, but if her husband were in Germany and she were living in Germany with him, she would also get post allowance. So can you comment first on the cost?

Ms. ARSHT. The estimate for what the liability could be is \$68 million. We do not really know how many applicants there will be and what the policy will be in carrying out the meeting of the demand for fulfilling our obligations under the policy, but we will have to accrue those dollars in case of and to prepare ourselves for what the outside possibility could be.

Mrs. DRAKE. So this will be that much less into the MWR accounts. Can you also explain to me why we would treat a spouse differently based on where the husband is stationed or where the wife is stationed? Was there an explanation of that?

Ms. ARSHT. There was a request for us to review the policy as it was currently being implemented. It was either the Inspector General (IG) or the Government Accountability Office (GAO) that reviewed the policy and told us that we were to treat the two different populations in the same fashion. The allotment is similar to a cost-of-living payment. So, if you are entitled to it, you need to know you are entitled to it and are to be paid it.

Mrs. DRAKE. Thank you, Madam Chairman. I think we need to talk more about that. Thank you.

Mrs. DAVIS. Thank you.

Mr. Murphy.

Mr. MURPHY. Thank you, Madam Chairman.

Thank you to the panel for your service to our great country. I appreciate it.

Mrs. DAVIS. Your mic is not on.

Mr. MURPHY. My mic is not working?

Mrs. DAVIS. It is not.

Mr. MURPHY. No?

Mrs. DAVIS. Is it on?

Mr. MURPHY. Is this better? There you go. It always helps if you put the button on.

Sir, you know, I thought of your alma mater. So I do not know—you know, we never had those audio issues at West Point.

Again, I want to thank the panel for your service to our great country. I know your role in keeping the hearts and minds of our troopers in the right place is greatly appreciated by this Congress.

I want to highlight—I know we combined the two hearings this year as compared to last. At last year's hearing on military re-sale programs, I had pressed Secretary Dominguez about my concern over the exchanges' declining profits. Less profits means less money for the MWR dividends, which means less programs in support for our troops and their families. I asked the Secretary whether he thought we should increase the percentage of the exchange profits that are used for MWR dividends. He responded that he believed that the exchange system would be able to reverse the trend of receiving profits through cost-cutting measures. So my question today to the board is, do you agree with the Secretary's assessment that the exchange system's profits can be increased through cost-cutting measures? What steps has the exchange system taken in the last year to cut overhead to ensure maximum profitability in how it affects MWR programs?

General THURGOOD. Thank you very much for the question. Let me just highlight from an AAFES perspective.

Last year, we delivered \$140 million in productivity, and that was driven through several big buckets—employee/associate productivity, logistics supply chain productivity as well as buying smarter. Those things will continue to move forward. Additionally, we will continue to work in a collaborative way with all of our exchanges and with MWR sister agencies to drive productivity wherever we can lead it out of the supply chain.

So I think that there is good hope—"hope" is not a plan. Let me back up. There is a plan, and you will see that from an AAFES perspective and from the exchanges' perspective that as we continue to focus and to leverage our technologies in different ways than we have before, as that technology comes to fruition, as we create a culture of ownership and entrepreneurship and innovation within our own organizations, all of that will drive productivity.

Now, having said that, we cannot save ourselves for the future. We also have to be good marketeers and grow the top line as well, which is why all of the things that we talked about earlier—ASE restrictions, making sure that we have world-class facilities, that we are building those facilities in a way that creates a sense of community and a new shopping experience going forward—drive us toward the productivity that I mentioned. It makes us better competitors in the global supply chain, and at the end of the day, it will deliver better, consistent-growing dividends for the MWR program.

Mr. MURPHY. Thanks, General.

I am reviewing my testimony from last year. I know, I cited that the profit and the dividend ratio stayed steady for about 55 to 60 percent of the profits going to fund MWR dividends, so we were seeing declining profits.

Do we have to expand that or are we locked in still at about the 55 to 60 percent currently?

General THURGOOD. That is probably not a question for me. We will deliver the dividend, and somebody else can figure out how to divvy it up.

Mr. MURPHY. Sir.

Admiral BIANCHI. Sir, I would just offer from the Navy exchange perspective that, right now, our split within the Navy is that 70 percent of the dividend goes to MWR, and 30 percent goes back into the exchange for recapitalization. We have had this reaffirmed by our board of directors that we have within the Navy that includes three-star-level admirals and representatives from the fleets and so forth.

We believe that is a successful model because we had a period of time about 10 years or so ago where we were not recapitalizing. I think what we saw was customer dissatisfaction, and that drove footsteps out of there. So it becomes kind of a vicious circle if we are not able to replenish the brick and mortar.

The only other thing I would offer in terms of efficiencies and so forth is that General Thurgood mentioned cooperative efforts. That has been a key area especially this past year. For example, we have combined with AAFES in stuffing vans that go overseas. We have increased the utilization of those by almost 10 percent. We are saving about eight percent on commercial rates by using some of the similar contracts that they have. So I believe we are positioning ourselves to be as efficient as we can. At the same time, we are trying to drive an increase in sales, and we have seen consistent sales growth over the last six or eight years.

Mr. MURPHY. I am sorry. Go ahead.

Mr. LARSEN. Well, from the Marine Corps perspective, if I could—from the Marine Corps exchanges from our perspective, you know, we feel very good about where we are this year. We have in-

creased our sales and have increased our dividends. At the same time, we have had three of our major stores under renovation. We have also had a significant amount of the Marine Corps deployed. So there needs to be an understanding of why we continue to increase our sales and dividends while we have those other conditions that affect the number of people and the availability of people to take advantage of the benefit. A couple of those things is what we have done as an organization.

We have centralized our buying. We have a centralized banking contract that has increased the efficiency of our organization in the way we do business. Another major reason that the Marine Corps is able to provide those dividends and to keep them is that, the way we are organized and the way that we spend that money, the money is generated on the installation. It remains on the installation. The installation commander then has the latitude to put that money into the programs that he needs to, so we have the ability not only to generate that income and that revenue but then to decide how we are going to spend it.

Mr. MURPHY. Can I ask a couple—I have one more.

Mrs. DAVIS. One more question, Mr. Murphy.

Mr. MURPHY. Okay. I will wait, ma'am, if that is okay.

Mrs. DAVIS. No. Go ahead. Go ahead. We are going to wind up in a few minutes.

Mr. MURPHY. Okay. I am a Blue Dog Democrat, which means that I believe in strong fiscal discipline, but I also believe in strong national defense. When we propose government spending, we should also propose a way to pay for it. We call it "pay as you go" here in Washington. During the Bush Administration, far too much of our military funding has been appropriated through supplemental spending bills that do not go through the regular budgetary process. This affects our military's ability to adequately plan, which, in turn, puts our Nation at a strategic disadvantage.

Do the panelists believe that our overreliance on supplemental spending bills has hurt their ability to provide adequate MWR programs? If so, could they give this committee some concrete examples of the budgetary problems that they have encountered?

Mrs. DAVIS. Who would like to answer that?

Mr. LARSEN. I will take it on for the Marine Corps first.

You know, the Marine Corps, I think, shares your concern about supplemental funding. We have benefited significantly from that, and the commandant and the leadership of the Marine Corps have recognized that that funding might not be there forever, so they have taken steps to make sure that the programs that we have for the MWR programs and the family programs are funded within the baseline of the Marine Corps' budget. So for the next two years—in fiscal year 2008 and in fiscal year 2009—we will benefit from the supplemental funding. After that, in the POM—the budget is being developed right now—our programs are funded in the baseline funding for the Marine Corps.

Mrs. DAVIS. Anybody else?

Quickly, Ms. Arsht, did you want to respond? No? Oh, did you want to respond?

Ms. ARSHT. Only to say that we have been very grateful for the supplemental funding that we have received. It has been important

additional funding to support warfighters and their families in very important ways that we talked about earlier, which is it has allowed us to extend our reach, our emergency intervention in childcare. There are different ways that we have been able to use our authorities to put programs in place that we did not have before, whether it is the Playaway books in the libraries for service members. These are important additions to the budget, but we do see the importance of moving out of supplemental and into the baseline all of these programs.

Mr. MURPHY. Would you concur with the Marine Corps? Obviously, the testimony was that they will have it good by 2010. Is that what your plan is overall, ma'am?

Ms. ARSHT. I think that all of the services have talked about this POM's being an important one. The conversations from this POM forward would include moving to baseline funding.

Mr. MURPHY. Thank you.

Thanks, ma'am.

Mrs. DAVIS. Thank you.

I think, obviously, we spoke to that earlier and to our concern that we keep that movement and the increment moving so that the programs will benefit for the men and women who serve. With the demands on those budgets, of course, we know that there is a tug of war there all the time. You know, we think that it is important that we focus on what we need to, which are the needs and benefits for our military. If I could just very quickly—there are a few outstanding issues to the committee.

The Kaiserslautern community center at Ramstein Air Base, I think we had heard that that was moving along. Then there seems to be concern about whether there really is a plan for completion.

I wonder, Mr. Myers. Could you just tell us, very briefly, the current status of that project? Can you assure us that service members' nonappropriated funds will not be used to pay for cost increases that are being calculated today?

Mr. MYERS. The visiting quarters (VQ) is about 90 percent complete. As for the funding, all of the funding is within congressional limits. Right now, I believe our forces in Europe headquarters, United States Air Forces in Europe (USAFE), have the best plan we have ever seen. They have worked closely with the German government. The Vice Commander of USAFE has worked with the ambassador, the U.S. Ambassador to Germany. They have got new people in the German oversight part of it.

Germany has done an unprecedented thing. It has given the U.S. 25 million euros—about \$40 million—to correct the deficiencies. The roof repair work is being done right now. There are ventilation problems and so forth. So they are working on the project.

The only project that is coming close to the budget limit is the VQ. So what we had said in December of last year is that, if it came close, we would resubmit that to Congress as an out-of-session. We plan on doing that. We do not believe we will bust it, but it is going to be close, and we do not want to stop the construction.

The German government has told us they will be completely finished with the project by January. However, our engineers are looking at that. They believe it could be done sooner. So we continually monitor the program. So, as far as we are told, it is on track.

The German government is involved. Our vice commander is concerned, and he is the monitor right now.

Mrs. DAVIS. Okay. Thank you.

Just one final question on the military resale operations at base closure sites. How can we best approach this issue? Do you have thoughts about a process or about some standards that we need to adhere to as we determine what services should be retained at a BRAC location?

Ms. ARSHT. I think you know that our policy is that, when an installation closes, the commissary and exchange close unless there is an active duty mission and there are at least 100 service members stationed there.

We have tried these other models—have combined stores and shared facilities—and they have not been popular. They have not been profitable. So we are looking at ways—and we have alluded to them today, perhaps not in the detail you might like—to try to extend the benefit to more eligible patrons. We are doing it now in a pilot that DeCA has undertaken and that AAFES will soon join of on-site sales. We are focused right now on Guard and Reserve to bring that benefit to the families and to the members.

I was able just two weeks ago to go to the Air National Guard in Charlotte and to see one of these on-site sales. There was a tremendous response from people who would normally have to drive 90 miles to the closest commissary.

So this—and I think Mr. Page would like to speak a little bit more about the plans, but we have put a certain number of these sales on the horizon for now, and we are adding to them, and we are looking at that and also some virtual sale capability to try to find efficient and good, solid ways to serve those who are eligible but who do not have brick and mortar presence.

Mrs. DAVIS. Mr. Page.

Mr. PAGE. I would be more than happy to add.

It has been a hugely successful program. We will have about 120 at a minimum. It could be more than that. The Charlotte sale that Ms. Arsht mentioned earlier was so successful that they have asked us to schedule two additional sales. We will have one in June. In fact, that is the one where AAFES will join us. There is a very large customer base there—I think about 1,100 Guard members, a huge retiree population. It was extremely successful. A lot of very positive comments came back.

We carry about 350 to 400 grocery items. We have produce. We have meat. We have seafood. It is a hugely festive event. We are tying them in with family days. We are tying them in at the Navy Reserve Centers. We are working with all branches of the service. I have been personally meeting with them to promote that.

Again, it is an opportunity. It is an option for those who are not located near a base or installation; 65 percent of Guard members are not located near a base or installation. About 42 percent of reservists are not located near a base or installation. We are actively seeking to meet their needs by delivering the benefit to them.

Our next stage is to view the Internet as an option. I will be, actually, demo-ing it in New York at the Senior Enlisted Leadership Council for the National Guard. It is being held there tomorrow. So we will demo our option of being able to be at home—to have the

Guard members be at home—to order products and to have them delivered to the Guard center. That is the next stage in the process we are developing. It is, I think, very exciting, and it does offer options for other venues and for other possibilities that might meet the needs that you are referring to.

Mrs. DAVIS. Okay. Great.

Thank you all. Thank you all very much. We will submit any other questions for the record. We wanted to do this in the two-hour time frame, and I think we made it. I appreciate very much your comments and your speaking to the point. Thank you. We look forward to working with you in the future. The meeting is adjourned.

[Whereupon, at 11:58 a.m., the subcommittee was adjourned.]

A P P E N D I X

APRIL 17, 2008

PREPARED STATEMENTS SUBMITTED FOR THE RECORD

APRIL 17, 2008

Opening Statement Chairwoman Davis
Hearing on Military Resale and Morale, Welfare and Recreation
Overview
April 17, 2008

Today, the Subcommittee will turn its attention to military resale and morale, welfare, and recreation or MWR programs. When service members and their families talk about community quality of life, they are referring to the commissaries, exchanges, child development centers, youth centers, libraries, gymnasiums, playing fields, parks, golf courses, clubs, restaurants, recreation equipment, and hobby shops that are the core of the military community.

Many Americans would consider the package of facilities and services that is typical for most installations and declare that it is better than what they have available in their communities. But few would challenge these community resources as inappropriate because Americans recognize the remarkable sacrifices and stress that accompany military life, particularly today given the extreme tempo of the ongoing conflicts. Our families need these strong and reliable centers in their lives and our warriors absolutely must be confident that their families are well cared for in their absence. The programs we will talk about today are a critical part of that confidence.

In short, the Members of Congress and particularly the Members of this Subcommittee are believers. While we require no convincing, I worry about the commitment of the armed services to sustaining these programs. With the exception of childcare, the appropriated funding support for these programs has been unenthusiastic and we seem to be less concerned about the challenge of maintaining a caring community environment. I hope the day does not come when we regret the loss of the sense of community in the military because we no longer appreciate its value as we once did.

We also have a number of questions concerning the management of these programs and the stewardship of the nonappropriated dollars that belong to the soldiers, sailors, airmen, and marines that serve our nation.

Before introducing our panel this morning, I would like to recognize Mr. McHugh for his opening remarks?

Our panel this morning includes:

Ms. Leslye A. Arsht

Deputy Under Secretary of Defense for Military Community & Family Policy

Major General John A. Macdonald, USA

Deputy Commanding General, U.S. Army Installation Management Command and
Commander, Family and Morale, Welfare and Recreation Command

Rear Admiral Robert J. Bianchi, USN

Commander, Navy Exchange Service Command

Brigadier General Keith L. Thurgood, USAR

Commander, Army & Air Force Exchange Service

Mr. Timothy R. Larsen

Director, Personal and Family Readiness Division, Headquarters U.S. Marine Corps

Mr. Richard Page

Acting Director, Defense Commissary Agency

Mr. John Baker

Fleet and Family Readiness Program Director, Navy Installations Command

Mr. Arthur J. Myers

Director of Services, Headquarters U.S. Air Force

Ms. Arsht and Mr. Myers, you are both very familiar faces....welcome back. And General Macdonald, you took a year off from us last year, but we welcome you back in your new role that I can see included a promotion....congratulations!

To all the others, the Subcommittee for Military Personnel welcomes you all to your first appearance and we look forward to your testimony. I would note that it is a most unusual year to have a 100 percent turnover of the leaders of all four of the military resale systems. I am sure the excellence of the new people will minimize the risks.

Opening Statement of Congressman John M. McHugh
Military Personnel Subcommittee
Hearing on Military Resale and Morale, Welfare & Recreation
April 17, 2008

“‘Quality of life,’ Madame Chairwoman, is easy to say, but hard to achieve.

“This subcommittee has consistently and aggressively sought to improve the quality of life of the men and women of the Armed Forces and their families, through efforts to sustain and even expand the MWR, commissary and exchange benefits. And we must continue that aggressive approach.

“As we have come to learn, providing that quality of life and sustaining the benefit is a many-faceted task. That’s clearly demonstrated not only by the number of our witnesses today, but also by their diverse responsibilities that span the complex worlds of MWR, installations, commissaries and exchanges.

“I want to acknowledge at the outset the difficult challenges that each one of our witnesses faces and to thank them for their leadership, commitment, competence and service. I would also note that five of them are appearing before us for the first time.

“Given the wartime, high operations tempo of the Armed Forces today, the necessity for the organizations represented here to provide their product—quality of life—to their customers has never been greater. Moreover, the demand of their customers—active, Guard, reserve, retirees and their families—for quality of life improvements and an expansion of the benefit has never been higher.

“So, I am disturbed by data presented in the staff memo indicating an overall decrease in appropriated fund support, when measured in terms of inflation. I am also concerned at the continuing difficulty of the exchanges to generate dividends for the MWR system.

“Moreover, there are some specific issues that may need subcommittee attention during the Fiscal Year 2009 defense authorization. So I will welcome the input from our witnesses on such questions as:

“Should commissary surcharge guidelines be changed to recognize the increased cost of providing the reserve components expanded access to commissary benefits?

“As the Department of Defense implements policy to require appropriated funds to be used for BRAC and restationing-related non-appropriated fund construction, what measures should be taken to provide those appropriated funds in Fiscal Years 2008 and 2009 when the military services may not have budgeted for them?

“What initiatives are the Department of Defense considering to carry out the President’s State of the Union proposals for improved child care services, and to what extent is the Department prepared and funded to implement them, should Congress support them?

“Given these and other issues of providing quality of life, today’s hearing is important in helping to shape subcommittee priorities. I thank you, Madam Chairwoman, for holding it and look forward to the testimony of our witnesses.”

WRITTEN STATEMENT

BY

LESLYE A. ARSHT

DEPUTY UNDER SECRETARY OF DEFENSE

(MILITARY COMMUNITY & FAMILY POLICY)

BEFORE THE

SUBCOMMITTEE ON MILITARY PERSONNEL

OF THE

COMMITTEE ON ARMED SERVICES

HOUSE OF REPRESENTATIVES

ON

APRIL 17, 2008

Not for Publication until Released
By Committee on Armed Services
U.S. House of Representatives

Chairwoman Davis, Representative McHugh, and Distinguished Members of the Subcommittee, I am honored to appear before you to testify about the commissary, exchange, and morale, welfare and recreation (MWR) programs.

The Department of Defense is committed to providing a high quality of life for military members serving our Nation and their families. In 2002, we published the first Department of Defense Social Compact, recognizing the reciprocal relationship among the military mission, the individual Service member, and the family. The Social Compact embodies the notion "families also serve" and that the MWR, children and youth, commissary, exchange, and other family support programs have a profound impact on the military quality of life and standard of living.

I would like to begin by thanking the Subcommittee for its steadfast support in helping the Department to advance and improve these programs for the past seven years. The Congress has provided tremendous support and the authorities needed for the Department to meet extraordinary demands to support our individual Service members and their families. We have garnered attention at the highest levels of our government.

PRESIDENT'S INITIATIVES

In the State of the Union Address on 28 January, 2008, the President addressed the sacrifice of military families and acknowledged the responsibility of the nation to provide for our military families while their loved one is serving far from home. The President, in an unprecedented call for support for military families, asked that Congress expand their access to child care, create new hiring preferences for military spouses across the federal government, and allow service members to transfer their unused education benefits to their spouses or children. The Administration will soon transmit to Congress proposals to provide this additional support to military families.

Child care is a major quality of life issue for military families. Active Duty Service members have 1.2 million children and National Guard and Reserve members

have 660,000 children. Statistics show that over 600,000 military children have had their parent(s) deploy once and almost 500,000 children have had their parent(s) deploy more than once. Newly and temporarily “single” parents need respite care; thousands of infants born to working military spouses need care. We have a robust child care program in DoD and our child development services continue to be a national model; yet, we still have unmet demand for thousands of children.

The Department has developed a plan to accelerate the child development center construction program and to increase public-private ventures with nationally recognized organizations. A 3-pronged approach will be applied to meet the needs of the total force, including Reserve Component families who are facing deployment.

First, in addition to the Military Construction (MILCON) program requests, an emergency intervention plan is underway to accelerate program availability through construction of both temporary child development centers and permanent renovations. Presently, the Department operates 800 Child Development Centers at over 300 geographic locations, both within the United States and overseas.

Second, the Department is using the expanded minor military construction authority that the Congress has granted through Fiscal Year 2009. Under this temporary authorization, the Services initiated projects which will result in an increase of 1,785 child care spaces.

Third, the Department will continue public-private ventures with nationally recognized organizations such as the Boys & Girls Clubs of America (B&GCA), 4-H, The National Association of Child Care Resource and Referral Agencies (NACCRRRA), ZERO TO THREE, National Military Family Association (NMFA) with Operation Purple camps, Military Child Education Coalition (MCEC), and Armed Services YMCA.

The Department is exploring means of providing support to families and developing innovative new support systems. Strategies include:

- Programs that “buy-down” the cost of high quality child care available in the local community.
- Expand existing partnerships with national youth organizations to obtain youth programs and services.
- Expand weekend and short-term programs and services to support retention, mission readiness, and provide respite for families who stay behind.

Education and training is a morale builder that helps sustain families financially and encourages people to make a life in the military. Spouse employment is a critical factor to the financial stability of military families.

Our survey of active duty military spouses in 2006 not only confirmed that the vast majority of military spouses want to work (over 77%), but that they want a career. An overwhelming 87% of military spouses would like to further their education, but the cost of education is their primary reason for not enrolling in school or training. Military spouses earn on average three dollars per hour less than their civilian counterparts and their unemployment rate is three times as high. Contributing to this is the dramatic difference in residence mobility between military and civilian wives; only about 10 percent of military wives stay in the same home for five years; most move to another state or overseas.

In an effort to meet the educational needs of military spouses, the Department partnered with the US Department of Labor on a demonstration program in eight states at 18 installations. This three-year demonstration program provides military spouses with support for education, training and license/credentials (i.e., nursing and teaching certificates) necessary to advance them into portable careers in Health Services, Education, Information Technology, Financial Services or Trades (e.g., electrician, plumber).

PROGRESS AND OUTLOOK

We are managing considerable change and see progress being made on a staggering range of challenges and opportunities. From our military leaders, there is an unparalleled call for quality of life programs to accomplish the mission. The MWR, commissary and exchange programs are supporting military personnel and their families as the force mobilizes, deploys, and rotates in large numbers. The military community and our programs are adapting as we size, shape and posture globally and domestically. Our activities are meeting rising customer expectations formed by a global and networked marketplace. The programs are building partnerships and leveraging technology to reach out to the two-thirds of our active duty families who live off-base, Guard and Reserve families who are not close to installations, our digital generation of members at remote locations around the world, and the over half of our military spouses who work. All of this is being accomplished during the longest period of time that our All Volunteer Force has been at war. We still have much work to do.

One of our most resounding successes has been Military OneSource, our 24/7 telephone and Internet site for Service members and their families. Military OneSource delivers information and referrals on the full array of quality of life support and is especially beneficial to those geographically separated from installation services or those who are unable to seek assistance during traditional work hours.

Military OneSource offers free, convenient access to confidential resource and referral support for Service members and their families and recently deployed a world-wide telephonic consultation capability as an additional option for those unable to attend face-to-face counseling sessions. The areas most frequently addressed are deployment-related: parenting, child care, financial management and permanent change of station issues. Last year, approximately 550,000 Service members filed their federal income taxes using the Military OneSource on-line tax filing service – we surpassed that number last month for 2007 tax returns.

MWR, COMMISSARY AND EXCHANGE PROGRAMS

The MWR, commissary, and exchange systems are designed to meet the day to day needs of our Service members and their families and must be capable at all times of supporting our forces deployed throughout the world. These systems support over 12 million authorized patrons at nearly 300 military installations in over 30 countries and military missions on board 157 ships and in 82 contingency operations.

MWR programs encompass a wide array of mission essential, community support and business operations. Participation in recreation, fitness, sports, cultural arts and other leisure activities is the key to active living, which leads to improved personal health and well-being and helps build strong military families and healthy communities. Active living can also reduce stress, loneliness, and depression and builds positive self-esteem and esprit de corps, so critical in the military environment. Family and spousal support and assistance programs, although closely affiliated and often managed with the MWR programs, are separate community programs on the installations that help families adapt to life in the military.

The commissary and exchange programs, or “the resale system,” are each components of the military compensation and benefit package and are important contributors to morale and readiness. The Defense Commissary Agency (DeCA) operates a world-wide system of commissary stores that sell name brand grocery and household necessities to military personnel and their families, who save an average 30 percent on their purchases. The Military Services run three world-wide Exchange systems that operate retail complexes, catalogs, and web sites that sell a wide range of merchandise and services to the military community, on board ships and in contingency operations. The exchanges price their goods to average at least 15 percent savings to the customer and to produce revenues to help finance the MWR programs.

Collectively, these programs contribute to the readiness and retention of the total force while supporting the well-being of their families. These programs comprise the interconnected framework of the military family and community support structure. These programs must work together as partners to overcome shared challenges and to fulfill their unique missions. As we move forward, continued Congressional support will be critical to our success.

PROGRAM OVERSIGHT

As indicated in earlier testimonies to Congress, investment in our people is vital. The Military Departments recognize their fiduciary responsibility to provide the resources and set the direction and goals to sustain the MWR and exchange benefits for the ultimate stakeholders, the military members. Each Military Service supervises their Exchange and MWR programs through a board of directors, except for the Air Force MWR program which is overseen by the Manpower, Personnel, and Services staff. The Military Departments, through their representation on the DeCA Board of Directors, advise the Under Secretary of Defense for Personnel and Readiness on the funding and operation of the commissary system and assist in the overall supervision of DeCA.

We take great pride in our important mission and in the tremendous efforts of the 130,000 employees of DeCA, the Army Family Morale, Welfare and Recreation Command, the Army and Air Force Exchange Service (AAFES), the Navy Installations Command, the Navy Exchange Service Command (NEXCOM), the Headquarters U.S. Air Force Services, and the Headquarters Marine Corps Personal and Family Readiness Division. Their amazing work is making a difference in the quality of life of our Soldiers, Sailors, Airmen, Marines and families.

In partnership with the Congress, I am confident that we have the leadership, the resources, and the drive necessary to see these important programs through these challenges. The Department places great confidence in the leadership of these

organizations, who also testify today. This team, with many new players, brings a wealth of experience and commitment to guide their organizations and to work together to guarantee future success.

APPROPRIATED BUDGET REQUESTS

The President's budget submission continues the Department's strong support for Service members and their families. The Fiscal Year 2009 President's Budget requests \$4.006 billion to operate the commissary, exchange, MWR, child care and youth programs. The DeCA FY 2009 budget request is \$1.2911 billion, which covers the \$1.3009 billion operating budget, adjusted for prior years. The \$245.6 million requested for the Armed Service Exchanges includes \$179.5 million to fully support transportation requirements to ship U.S. procured goods to overseas locations, as is required by the law. The Military Departments request \$2.1 billion for direct support of the MWR programs, with \$969 million designated to support child and youth development programs. In addition, the Fiscal Year 2009 budget requests \$375.1 million of MILCON and \$138 million of Base Realignment and Closure (BRAC) funding for commissary, child care, fitness, recreation, and lodging facilities.

RESALE SYSTEM OVERSIGHT

The commissaries and exchanges exist as government entities to deliver results that can not be entirely furnished by the private sector. We must, therefore, continue to demonstrate that our commissaries and exchanges, individually and in aggregate, are meeting the needs of our Service members and are contributing positively to recruiting, retention, and readiness. We set long term goals and monitor program performance through the DeCA Board of Directors, the respective Exchange Boards, and within my office. The commissary and exchange performance are components of the Quality of

Life Social Compact Improvement Index in the Performance Accountability Report and the Department's Annual Report to the President and the Congress.

The Defense Manpower Data Center periodically surveys our customers to understand how they value commissary and exchange benefits. In addition, the Department uses the American Customer Satisfaction Index (ACSI), a nationally recognized measure of customer satisfaction that includes the largest U.S. retailers, as a general measure of satisfaction with the commissary and exchange benefits. These tools, along with the customer satisfaction assessments by the commissaries and exchanges, help us identify improvement opportunities. The Department is encouraged by the Resale systems' initiatives to invest in technologies, partner with other programs, and expand communication channels that will give customers more information about best value and better access to their resale benefits.

Executive Resale Board. The Executive Resale Board advises the USD(P&R) on the complementary operation of commissary and exchange systems. Since its members may also serve on the Commissary Operating Board and the Exchange boards, the Executive Resale Board provides valuable insight where there are mutual interests. The Executive Resale Board reviews joint construction projects, resale information system standards, resale cooperative efforts, combined store operations, and evaluates merchandise authorized for sale, including the results of the impulse merchandise test in commissaries.

We recently reported the two-year test results for the ten commissaries selling film, one-time use cameras, and telephone cards. Although we have not ruled out selling other items in the commissaries, the test did not indicate strong customer support for the commissaries to continue selling these particular items. Also, based on Board recommendations, the Department initiated a process to resolve competing interests over merchandise that is not clearly delineated between commissaries and exchanges. These reviews, along with the recent evaluations of combined stores, have encouraged progress in other areas that may provide value to commissary and exchange patrons worldwide.

The Resale Commanders are exploring new opportunities to operate collaboratively, such as cross promotion of merchandise and services and expanding on-site events for the Guard and Reserve.

Defense Commissary Agency Oversight. The DeCA Board of Directors provides critical advice on the commissary stores needed by the Military Services, management initiatives to improve DeCA's performance, and priorities for investing surcharge funds in systems and construction. The Board closely monitors the \$5.5475 billion resale stock fund and the \$1.3009 billion operating budget to ensure that DeCA is funded commensurate with its mission and the support provided to each Armed Service. DeCA's strong stewardship of taxpayer dollars has been demonstrated by the sixth consecutive unqualified audit opinion of its financial records.

Under the Board supervision, DeCA's management has a proven track record of achieving performance goals. Since 2000, DeCA steadily increased sales, improved the quality and availability of goods, sustained capital investment, and reduced costs through business process improvements – all while leading the grocery industry in customer satisfaction ratings and delivering customer savings averaging over 31 percent. The savings, while slightly down for all categories except produce in the U.S., climbed overseas due to the unfavorable currency exchange rate. Under the Office of Management and Budget (OMB) Program Assessment Rating Tool (PART), DeCA's PART Improvement Plan continues to focus on maintaining long-term customer satisfaction and reducing costs by restarting DeCA's competitive sourcing program in 2009.

Armed Service Exchanges Oversight. The exchanges are making progress toward producing more standardized performance measures against program and financial goals established by their Military Services. Each of the exchanges is improving business processes and modernizing technology to improve program delivery, operate more effectively, and to remain competitive in a challenging retail market. In addition, their Boards are pursuing enduring partnerships among the exchanges to improve customer

service and maximize efficiencies in systems, logistics, and supply. For example, under a cooperative initiative, customers can now redeem gift cards in all exchange activities anywhere in the world.

The audited financial statements report that the exchanges are in sound financial condition, with Standard and Poors ratings of A-1+. We continue to monitor exchange profitability and MWR dividends, which surpassed the FY 2007 goals. The NEXCOM expects to sustain these higher levels in FY 2008. The AAFES and the MCX expect profits and dividends to decline in FY 2008. All the exchanges are exceeding the goals set by their boards for savings to the customers and customer satisfaction. Customer satisfaction improved significantly and average savings to customers are now 20 percent or better – well above the 15 percent target.

CHILD CARE, YOUTH AND FAMILY PROGRAMS

The child care and youth programs are crucial elements of the MWR community support functions, providing service on a daily basis for the largest number of children of any employer in the United States. Readily available, quality and affordable child care and youth programs are a workforce issue with direct impact on mission readiness and mobilization preparedness, especially in today's higher operations tempo. Our families, like their civilian counterparts, include dual working couples and single-parent families. The military child care system includes services both on and off installations: installation Child Development Centers; in-home family child care; school-age care, and resource and referral partnership programs.

The Department continues to lead the nation with ninety-seven percent of DoD Child Development Centers accredited by the National Academy of Early Childhood Programs, as compared to 8%-10% of civilian child care centers. To be accredited, early childhood programs voluntarily undergo a comprehensive self-study and an external, professional review. Criteria are aimed at providing a safe and nurturing environment

while promoting the physical, social, emotional and intellectual development of young children. Additionally, a report released by the National Association of Child Care Resources and Referral Agencies in March 2007 rated the DoD child care system oversight and standards as the top ranking among all 50 states and the District of Columbia with a score of 117 out of 150 points, 27 points ahead of its nearest competitors (New York and Illinois).

Youth Programs

The Department of Defense has a long history of providing positive youth programs that focus on alternative activities for youth during out-of-school hours. Military Youth programs support the needs of school age children, older youth and teens, thereby resulting in reduced duty time for Service members due to conflict between parental responsibility and mission requirements. Youth programs and services also help minimize lost duty time due to youth misconduct during out of school hours, and have a positive influence on families.

Youth Programs offer a unique and wide variety of educational, recreational, cultural and social activities for youth between the ages of 6 and 18. Today, DoD provides more than 350 dynamic youth programs worldwide. DoD promotes positive youth development by designing programs to recognize the achievements of youth and by developing partnerships with other youth-serving organizations such as the Boys & Girls Clubs of America and 4-H that offer a variety of resources. Programs prepare teens and pre-teens to meet the challenges of military life, adolescence, and adulthood. Programs include physical fitness and sports, arts and recreation, training in leadership, life skills and career/volunteer opportunities, mentoring, intervention and support services. Many programs offer summer day camp programs and youth employment.

The construction of additional youth facilities will allow DoD to expand programming for youth. The 2008 Youth Center construction projects, totaling \$127 million in nonappropriated funds (NAF), constitute a critical aspect of supporting families by providing additional facilities to meet youth program needs. We recently

forwarded an “out of cycle” request for fifteen youth center projects at Army installations to better serve youth in after school programs and to help meet 35 percent of the youth demand by FY09.

Each of the Military Services has developed on-going partnerships with nationally recognized youth organizations such as the Boys & Girls Clubs of America (B&GCA) and 4-H, that offer well-established, research based programs. These organizations and programs are easily accessible to geographically isolated military families and Reserve Component members who do not live near an active installation. Strong partnerships with local school systems provide additional support to youth whose parent or loved-one has deployed. Programs designed to provide a safe place for youth during the summer months contribute to a comprehensive approach of providing support to youth. A few major initiatives include:

- Operation Military Kids (OMK) - a collaborative effort with America’s communities to support Reserve Component children and youth before, during, and after the deployment of a parent or loved one. *OMK* Teams in 42 states locate and serve Reserve Component youth living in the local community utilizing community support networks such as the American Legion and local Veterans’ service organizations, B&GCA, county 4-H Agents and local clubs, the Military Child Education Coalition and state and local schools, and the National Association of Resource and Referral Agencies (NACCRRRA). The teams work together to increase the community’s capacity to support youth when the Service member is deployed.
- Speak Out for Military Kids – includes state OMK Teams working with nearly 2,300 citizens within the state to better understand the military lifestyle, to identify community support services needed during the military deployment cycle, and to identify resources to help military children and youth cope with the stress of absent parents who may be in harm’s way.
- State Military Liaisons – 4-H Military Liaisons have been established in every state to serve as a link between the resources of the Land Grant University Extension System

and Military Child and Youth Programs. State 4-H Military Liaisons lead the OMK State teams.

- Mission: Youth Outreach - A Services sponsored youth outreach initiative with the B&GCA allows geographically dispersed Reserve Component youth to attend a local Boys & Girls Clubs (B&GC) at no cost. B&GCs provide a safe and positive place for youth to spend their out-of-school time. Youth and teens have access to all B&GC programs and may participate in local and national events.
- Youth of the Year is a recognition program administered by the Army, Marines, Navy, and Air Force in conjunction with the B&GCA. The Youth of the Year program recognizes youth's outstanding contributions to a member's family, school, community and youth center, as well as personal challenges and obstacles overcome. National Guard and Reserve youth participate in Youth of the Year events.
- Training for School Personnel includes "Supporting Children of the National Guard and Reserve" Institutes, two-day forums designed to provide professional development for school educators, guidance counselors, and family support specialists who work with the National Guard and Reserve. The school-based training is conducted by the Military Child Education Coalition (MCEC), a non profit organization, and is designed to respond to the needs of the "suddenly military" child. Institute offerings have been concentrated in eleven states and areas most affected by deployments. More than 1,100 school personnel have attended the Army, MCEC, and State sponsored institutes.
- School Support Services vary by location and need. In Hawaii, families of activated Soldiers were served by the Deployment Response Team. Overseas, impact on school transitions were improved when the Department of Defense Dependent Schools (DoDEA) changed policy to allow Reserve Component military members activated for more than 180 days to enroll their children in DoDEA Schools. Additionally,

Domestic Dependent Elementary and Secondary Schools in Guam were able to accommodate children of activated Reserve Component Members.

- Operation Purple Camps – National Military Family Association (NMFA) with funding from private foundations developed this no cost summer camp program in response to the need for increased support for military children, especially those whose parents are or will be deployed. Specific curricula were designed to help children develop strategies for coping with their parent's deployment.

Future of Warfighter and Family Service Programs

As discussed earlier, unlike child and youth programs, Warfighter and Family Services (WFS) programs are not part of the Department's MWR reporting structure. Taken together MWR and WFS programs build the social fabric of the military community and provide an integrated approach to service delivery for troops and families and comprehensive support to commanders. The Department is currently working with MWR and WFS programs of the Military Departments to review all opportunities for greater flexibility in the use of resources, and will seek future congressional support to achieve the goal of flexible support to MWR and WFS programs.

SUPPORTING GUARD, RESERVE AND GEOGRAPHICALLY DISPERSED PERSONNEL

We continue to emphasize programs that target our geographically dispersed military personnel and their families, including the National Guard and Reserves. The John Warner National Defense Authorization Act for FY 2007 required the Department to carry out a joint family support assistance program for families of members of the Armed Forces in not more than six areas of the United States, of which up to three of the areas were to be geographically isolated from military installations. To address this, the Department launched a pilot program in six states (Arkansas, Hawaii, Minnesota, New Hampshire, Ohio, and Oregon). The response was overwhelmingly positive and an

additional nine states were included (Alabama, California, Colorado, Florida, Indiana, Nebraska, Tennessee, Texas and West Virginia). We are taking steps to open the program in all 50 states, as it serves as the primary underpinning to the new Congressional direction for Yellow Ribbon reintegration. This initiative created a "high-tech, high touch" web-enabled community to connect military families with each other and with supportive resources 24/7 regardless of where families are located. Additionally, the initiative enhances the availability of resources for family members by augmenting the activities of active duty and Guard and Reserve family centers and programs. Partnering with the Red Cross, this program facilitates a federal, state and local team that can offer benefits and transition assistance throughout each of the participating states.

Providing child care for the Reserve and Guard presents unique challenges. Many families do not live close enough to military installations to use on-base child care and off-base care is not always affordable. The availability, affordability, and access to high quality programs for children and youth are critical elements of support for families of the National Guard and Reserves. An initiative designed to address these challenges is Operation: Military Child Care, which reduces but does not fully subsidize the cost of child care. Services are provided through partnership with a national nonprofit organization that helps parents locate child care, at reduced rates in their own communities, when they are unable to access child care on military installations.

Direct mailings, Military OneSource, unit events, and the Internet are used to inform Guard and Reserve members about the value of their commissary and exchange benefits. Joint commissary and exchange special events, such as "case lot" and "tent sales," also attract geographically dispersed personnel, including retirees, to our retail complexes on military installations. To increase Guard and Reserve accessibility to the commissary benefit without costly infrastructure, DeCA is expanding their "on-site" truckload sales and on-line grocery ordering programs. In Fiscal Year 2007, DeCA introduced "on site" truckload sales at 21 Guard and Reserve locations that are not near a

military installation. There are plans to significantly increase the number of Guard and Reserve events this year, with participation by the exchanges. The exchange catalog and Internet stores offer another way for our military community to remotely access their exchange benefits.

The Department is exploring other ways to expand the military MWR benefit to active duty, Guard and Reserves who do not have access to installation MWR programs. This includes on going efforts to establish national partnerships to provide discounts for fitness and recreation programs. We are working with many non-profit organizations that provide recreation and also the National Recreation and Park Association, as the nation's leading professional association for personnel working in community, and military parks and recreation programs. The goal: to create awareness within State and local communities on the need to engage military personnel and their families, who do not have access to installation-based MWR programs that promote active, healthy lifestyles and create a sense of community. We also plan to better use Military OneSource as a virtual one-stop-shop for recreation opportunities - both those found in the local community and installation based MWR programs that can be accessed off the installation, such as the virtual library materials and discounted tickets, hotels, and travel opportunities.

MIGRATING TO THE NEW GLOBAL POSTURE AND DOMESTIC STRUCTURE

Base closure and realignment (BRAC), restationing, and Grow the Force may require changes to our activities that support domestic and overseas military communities. DoD is partnering with other Federal Agencies and the affected civilian communities to formulate quality of life programs at locations where there will be a sufficient concentration of active duty members. We recognize that access to benefits is a pressing concern for communities after bases close and realign. We would continue an operation only if there is a significant active duty population remaining in the area that

would otherwise not be supported. As a general rule, we do not continue commissary, exchange or MWR operations after an installation closes. By divesting the operations that are no longer required to support active duty missions, resources can be redirected to support the military communities that will experience a significant increase of active duty personnel.

Implementing Joint Basing

For the twelve joint installations created under BRAC legislation, we are working with the Military Departments and the installation commanders to manage the change. The initial implementation guidance was recently issued. We are nearing completion of the supplemental guidance for nonappropriated fund instrumentalities and civilian human resources to ensure processes used to implement Joint Bases are effective and fair. Supplemental guidance will specifically address the concerns raised by the Services, the affected installations, and the Subcommittee. We will report those results to the Defense committees, as you have requested.

The warfighter and family services, lodging programs and a portfolio of MWR activities, to include children and youth, will merge at all but one location (Fort Myer/Henderson Hall). The programs will be provided to Service members and their families based on an assessment of mission, demographics, geography, and market requirements of each Joint Base. The Components are collaborating to develop common standards and levels of support for fourteen major MWR mission sustaining programs (Category A), warfighter and family services, and community support programs (Category B), children and youth development programs, and lodging. These DoD-wide standards will first be introduced at joint bases, as a means to provide consistent quality, available, and affordable programs, regardless of military affiliation. The exchange operations are not merged at joint bases, so exchange earnings should be unaffected. The Components will adjust their dividends when necessary to ensure equitable distribution to MWR programs at joint bases

Supplemental Civilian Human Resources guidance ensures that DoD installations involved in joint basing take into account the mix of APF employees, NAF employees, military members, and DoD contractors who currently accomplish the functions affected by the joint basing action, and work to mitigate adverse effects on employees. The guidance addresses labor relations obligations, potential reductions in force, transfer of function and transfer of work, work classifications, and NAF personnel issues. NAF employers participated in the development of supplemental guidance applicable to nonappropriated positions, which will address placement procedures in the new Joint Base organization, separation and severance pay, and portability of NAF retirement benefits.

Commissary and Exchange Stores at Closed Installations

Under DoD policy, commissary and exchange operations are generally closed when an installation closes. Independent commissaries and exchanges may be authorized to continue operations at a closed installation where there is a significant Active Duty population, the nearest installation authorized support is over 20 miles away, no new construction is required, there is local community support, and other specific criteria are met. Exchanges must be profitable.

Where independent operations can not be continued at closed installations, the law allows the exchanges to operate up to ten “combined commissary and exchange stores” that sell groceries at cost plus 5 percent, with DeCA providing up to 25 percent of the previous APF support for the location to offset grocery losses. Under this authority, the exchanges operated four “combined stores” for many years. Three of the four locations have closed, due to persistent financial losses that lowered dividends to MWR. We recently notified the Congress of our intention to close and convert the last location to an independent exchange operation.

Our exhaustive reviews have not produced a successful model for combining commissary and exchange stores as a way to continue operations at BRAC locations in the United States. Several studies, conducted by the Resale Commanders at the request

of the Executive Resale Board, concluded that the grocery losses could not be fully offset by the level of appropriations permitted by law and that a statutory change would sacrifice the savings identified within the BRAC recommendations. A concept for the commissary and exchange to operate within a “shared facility” would also lower exchange profits and dividends to MWR and increase DeCA’s APF costs. The Department plans to determine future operating formats, on a case by case basis, within the current statutory and policy structure.

Commissary Openings and Closures

DeCA currently operates 259 stores worldwide. The commissary system is operated entirely with appropriations and goods are sold at cost plus a 5 percent surcharge. This fiscal structure is designed to save military families an average 30 percent and produce \$279 million annually to support capital investment in store systems and shopping facilities. Within these funding constraints, the Department must assure that criteria are met when establishing new operations, including a full-time active duty mission and at least 100 active duty personnel are assigned to the installation. The Department has never waived this policy and has no plans to change it.

Under these criteria, the Department established a commissary store at Naval Air Station, Joint Reserve Base, Fort Worth, Texas on March 25, 2008 in conjunction with the disestablishing of the AAFES operated combined store. Two commissaries have already closed in Fiscal Year 2008: Buedingen and Gelnhausen, Germany. In Fiscal Year 2009, one commissary is scheduled to close due to BRAC and three commissaries are planned to close in Germany. There are five additional commissaries scheduled to close in 2010 – 2011, due to installation closures under BRAC action.

FACILITIES REQUIREMENTS

It is essential to have predictable and adequate funding for construction and sustainment, restoration, and modernization of facilities. During preparation of the Fiscal

Year 2009 budget request, the Department reiterated longstanding policy that requires programming appropriations for those facilities that are required to establish, activate or expand a military installation, including implementing BRAC, global restationing, and Grow the Force actions; relocation of facilities for convenience of the Government; replacement of facilities denied by country-to-country agreements; and restoration of facilities and improvements destroyed by acts of God, fire or terrorism. Fiscal law precludes using the commissary surcharge in the place of appropriations. New and more stringent criteria, to include the prerequisite to program appropriations, should limit the number and circumstances where waivers are granted to use NAFs instead of appropriations.

These policies should help to preserve our commissary surcharge and NAFs for other construction and capital requirements. We await the Senate's action on the Fiscal Year 2008 commissary surcharge and NAF construction program, which contains 42 major projects totaling \$415 million, with \$86 million for overseas locations. The smaller Fiscal Year 2008 program is attributed to our withholding two commissary and three MWR projects pending Army review of their necessity to implement BRAC and restationing, which would dictate appropriated funding; decreases in all MWR programs, with no major construction by the Air Force; and cost avoidance through expanded public-private venture programs.

The Fiscal Year 2009 President's Budget requests BRAC and MILCON funding for 42 community facilities totaling \$513 million. The projects include child development centers, youth centers, fitness centers, lodging facilities, recreation and community activity centers, a library and two commissaries.

The Subcommittee requested that the Department conduct a review to determine if projected resources over the next 10 years will be sufficient to meet facility requirements. The initial reviews by the Military Departments, who have funding responsibility for these programs, identified unfunded requirements at locations affected by mission-directed changes. Based on the funding policy clarifications and leadership support for

addressing quality of life considerations, the Military Services are re-examining those requirements and making necessary changes to their facilities programs and budget requests. Our report will be provided with the Fiscal Year 2009 commissary surcharge, nonappropriated, and privately funded construction program.

Also based on these reviews, the Army and Navy have identified additional resources available for several Fiscal Year 2008 commissary, exchange, MWR, and youth center projects. We generally avoid incremental requests of construction projects, since it is not in the best interest of an overall review of Department-wide construction priorities. Consequently, we will transmit only the highest priority projects that are both necessary and must commence construction in Fiscal Year 2008, in order to support the influx of troops and families at gaining installations.

CAPITAL INVESTMENT PROGRAMS

In addition to facilities construction programs reported to the Congress, the commissary surcharge and nonappropriated resources fund capital programs for equipment, information systems, and sustainment, restoration, and modernization projects. The latter projects are increasingly preferred to extend the useful life of a facility, rather than replacing it with new construction. Overall capital investment and the investment in facilities have steadily increased over the past five years.

DeCA forecasts sales over \$5.5 billion in FY 2009. The current surcharge rate of 5 percent supports the capitalization of store level systems and construction, with appropriations funding BRAC, restationing, and facility relocations. In Fiscal Year 2009, DeCA plans nearly \$280 million of capital investment, with \$72 million earmarked for information technology modernization and \$208 million for facilities and equipment.

AAFES, NEXCOM, and the Marine Corps Exchange (MCX) are operated predominantly with self-generated nonappropriated resources and with Military Service appropriations authorized for limited purposes. The exchanges price their goods to

provide savings to the customer and to produce revenues at a level set by their Military Service to sustain exchange capitalization requirements and to help finance their MWR programs. Collectively, the exchanges estimate profits of \$628 million for the retail year 2007, which closed at the end of January 2008. The exchanges continue to plan for capital investment averaging \$528 million per year, with \$158 million identified for information technology modernization and \$370 million designated for facilities and equipment. On a combined basis, the exchanges plan to distribute \$349 million (56 percent) of their 2007 profits as dividends, up from \$316 million in FY 2006. Dividends are projected to fall to \$283 million in Fiscal Year 2008.

The MWR programs plan to increase their average capital investment to \$401 million per year, with \$24 million identified for information technology modernization and \$377 million designated for facilities and equipment. In addition, the Lodging program is planned to increase average capital investment to \$230 million per year, with \$222 million designated for facilities and equipment.

MORALE, WELFARE AND RECREATION (MWR) FUNDING

Within Secretary of Defense policy and fiscal guidance, each Military Service manages and funds its MWR program using a combination of appropriated and nonappropriated resources. The continued vitality of the MWR programs depends on sound management, meeting command and customer needs, a predictable stream of NAF revenues, and also solid APF support of Category A and B activities.

All the Military Departments report that their MWR programs were profitable in Fiscal Year 2007. The combined MWR profits of \$117 million represent a \$73 million increase over Fiscal Year 2006. Fiscal Year 2007 APF of \$2.1 billion, with \$1.5 billion in direct support, represents 51 percent of total MWR program costs. The remaining 49 percent of MWR program costs was supported with NAFs. However, not all of the

Services met the minimum DoD standard percentages of appropriated support for Categories A and B activities.

Category A activities (fitness, libraries, recreation centers, single Service member programs, intramural sports, and unit activities) should be entirely funded with appropriations. The Department sets a minimum standard requiring at least 85 percent of total expenses being supported with APF. The Army achieved 83 percent in FY 2007. Category B activities (child and youth development programs, outdoor recreation, crafts and hobby shops, and small bowling centers) should be supported with a minimum APF of 65% of total expense. This year, Navy dropped below the minimum standard with 61 percent and the Air Force had 64 percent.

The FY 2008 APF budget is \$1.7 billion in direct funding for MWR programs, of which \$660 million is for child and youth development programs, and there are 7 MILCON projects totaling \$120 million. The FY 2009 MWR budget request for direct support is \$2.1 billion dollars, with most of the increase going to child and youth development programs. The FY 2009 budget request includes 36 construction projects for \$448 million funded from appropriations, with \$96 million to support those installations gaining populations under base realignment, closure, and restationing actions.

MWR PROGRAM INITIATIVES.

Our MWR programs continue to evolve to meet the contemporary needs of our members and their families. These programs are vibrant and reflect the diverse leisure time interests of our modern day force of combat veterans and families.

Libraries: Online library portals provide continuous access to academic materials, regardless of location. Virtual resources are located on the Army's General Library Information System, the Navy's Library Multimedia Resource Centers on ships, and the Air Force's Learning Resource Centers. This service greatly enhances the outreach

capabilities of the Department's 207 installation libraries. Currently 103 libraries meet one hundred percent of DoD core standards and this number increases each year. Of particular note, all of Marine Corps libraries meet DoD standards and they are the only Service to have three libraries with certified "DoD premiere status."

The Department recently launched a Lean Six Sigma study of library material purchases, to ensure that DoD takes advantage of economies of scale, since purchase of paper or electronic recreation materials varies among the Services. DoD is funding a joint purchase of library materials, recommended by the Service librarians, to jumpstart this initiative and immediately make available more library materials to deployed troops and active duty, guard and reserve members and their families. This joint procurement adds to the Services' collections of electronic and audio books, and provides several data bases that include animated e-books for children (three years through high school age), do-it-yourself reference centers for home and auto repairs, career planning, and lifelong learning centers. These materials will be able to be downloaded through Military OneSource and from the Services library portals, making them available virtually anywhere.

Single Service Member Programs: The Department also understands the importance of focusing efforts on single Service members, not just families. Our single Service members tell us they enjoy exercising, electronic social networking, weekend trips, music, computer games, movies, and high adventure sports. Single Service Member programs are targeted to 18-25 year olds and provide opportunities to socialize with friends, learn new skills, travel, and experience new adventures in and out of the military community.

Fitness: Based on Defense-wide fitness standards, all of the military Services continue to expand and provide innovative fitness programs that sustain a physically fit, healthy force in our military communities and for deployed men and women around the world. Long term plans will modernize the fitness infrastructure beginning with the

Services request for seven fitness center MILCON projects in FY 2008 and another 67 fitness centers programmed through FY 2013.

Professional entertainment: Entertainment helps build morale and nowhere is this support more important than in the austere locations where Service members are performing duty. Armed Forces Entertainment (AFE), in cooperation with the USO, continues to provide much welcomed celebrity and professional entertainment to our forces overseas. In 2007, AFE conducted 130 tours with 1300 shows in over 25 countries. Nineteen of those tours were with USO coordination. Entertainers included Gary Sinise, World Wrestling Entertainment, Harlem Globetrotters, Bret Michaels of Poison, Comedy Corps and numerous other bands, comedians, and entertainment groups.

Each of the military Services also provides entertainment opportunities both in the United States and overseas. The Spirit of America Tour provides a brief reprieve from the stresses of deployments at military installations within the continental United States. From 2002 through 2007, the Robert and Nina Rosenthal Foundation worked closely with the country music industry to provide 92 celebrity entertainment shows at no cost to military personnel and their families. Through this program, performers, such as Clint Black, Travis Tritt, Dennis Miller, Oakridge Boys and many others have given generously of their time and talents.

Information and Leisure Travel: The Department has 342 Information, Ticket and Tours (ITT)/Travel offices located worldwide to encourage military personnel and their families to get out and enjoy their duty location wherever it may be. Experienced staffs provide information brochures, advice and often reservations for local and regional attractions; local or regional group tours; discounted tickets to local movie theaters, concerts, plays, sports events, museums; admission to regional or national theme parks; and discounted hotels, resorts, and even cruises. Customers consistently rank ITT/Travel offices as an important MWR benefit as it can help provide significant savings for the individual or family entertainment and travel budget.

Return and Recreate: The Department, working with the Services, recognized the need to develop a post-deployment recreational program. Service members returning from the intense conditions of war can get their adrenaline pumping and fill their bodies with good endorphins in our high-adventure recreation programs, like rappelling, rock climbing, mountain biking, jet skiing, white-water rafting, paintball, or windsurfing. With free time for the first time in a long time, they have many choices on how to spend it, including MWR outdoor recreation programs. The Army, for example has created Warrior Adventure Quest (WAQ), which offers high adventure programs that are fun, challenging, supervised, and provided in a safe environment. WAQ is currently targeted for fourteen installations with high rates of deployment; family members can also participate.

Heroes to Hometowns: The American public's strong support especially shows in their willingness to help Service members who are severely injured in the war and their families as they transition from the hospital environment and return to civilian life. Heroes to Hometowns' focus is on reintegration back home, with networks established at the national and state levels to better identify the extraordinary needs of returning families before they return home. They work with local communities to coordinate government and non-government resources necessary for long-term success.

The Department has partnered with the National Guard Bureau, The American Legion and the National Association of State Directors of Veterans Affairs, to tap into corporate and non-profit resources at all levels to garner community support. Support has included help with paying bills, adapting homes, finding jobs, arranging welcome home celebrations, help navigating through the bureaucracy, providing entertainment options, mentoring, and most importantly, garnering hometown support.

Adaptive sports and recreation: The ability of injured Service members to engage in recreational activities is a very important component of recovery. We continue to work with the United States Paralympics Committee and other organizations so that our severely injured have opportunities to participate in adaptive sports programs, including

skiing, running, hiking, horseback riding, rafting, or kayaking. We are also mindful of the need to ensure installation MWR programs can accommodate the recreation needs of our severely injured Service members and their families. Recreation programming for injured troops is underway at installations with Warrior Transition Units and MWR staffs are increasingly partnering with local communities to develop programs to benefit the returning warfighter suffering from mental and physical injuries. Additionally, at Congressional request, we studied the current capabilities of MWR programs to provide access and accommodate eligible disabled personnel and have initiated plans to make available adaptive golf carts for use on military golf courses.

DEPLOYMENT SUPPORT

Internet Service: The ability to communicate with families and friends is the number one factor in being able to cope with longer and more frequent deployments. When deployed, service members have free access to the non-secure military Internet by using their military e-mail address, including aboard ships. They also have free Internet access at 560 MWR Internet cafes in Iraq, increasing to 885 cafes by September 2008 and 45 MWR Internet cafes in Afghanistan, growing to 65 cafes in September. This will represent increases of 264 percent and 117 percent respectively in the number of Internet cafes operating since 2006.

MWR Internet cafes offer webcams and headsets so they can make video calls and voice calls over Internet at less than \$.04 per minute. During the past year, the Department funded an increase in satellite bandwidth to provide better speed and reliability, and antennae size was increased to allow more data to be sent over the Internet using less power. Service members have access to You-Tube, MySpace, Facebook, and all the popular, widely used websites to better communicate with family and friends. MWR Internet cafes are also being installed in Education Centers, so Service members can complete on-line classes and conduct research. In addition, the Marine Corps launched MotoMail, a HQMC-sponsored regular mail alternative program developed to

support deployed Marines and families. Through this enhanced capability, individuals can access an established web site and deliver a letter to deployed Marines in 24 hours or less.

Back home, computers and Internet service located in our family support centers, recreation centers, installation libraries, and youth centers help ensure families can send and receive e-mails from their deployed loved ones. In fact, between home computers and family support and MWR sponsored computer centers, families are connected to their Service members in near real-time, which has a dramatic effect on readiness both at home and overseas.

Telecommunications. In theater, members may use official lines for “health, morale, and welfare” calls directed through military installations and there is only a charge to the service member if the call must be connected to long distance within the U.S. The Armed Services Exchanges also provide the unofficial telephone service at low international rates for both land and sea based deployed members. As of January 2008, AAFES ran 73 call centers with 1,664 phones in Iraq, Afghanistan, and Kuwait. NEXCOM supports most deployed ships in theater with one, 10, or 20 telephone lines depending on the size of the ship.

Programs for Deployed Personnel: Sustaining morale and readiness during deployment and contingency operations is the essence of the mission support role of MWR and exchange programs. Service members have access to a full spectrum of MWR activities and exchange retail services specifically implemented for forces deployed to fight the global war on terrorism.

Recreation activities include cardiovascular and weight equipment, sports and recreation equipment, monthly shipments of paperback and Playaway audio books, and newspapers, magazines, board games, large screen televisions, DVD/CD players, up-to-date electronic games, first-run movies, a rest and recuperation program, and continuing education support. MWR recreation kits are sized to fit the needs of the deployed unit and this March, eleven Army MWR Specialists deployed to Iraq on 179 day tours to

organize and implement recreation programs and special events. Larger, more established locations (and ships) have full fitness centers, libraries, movie theaters, and MWR Internet cafes.

AAFES, augmented by Marine Corps personnel, provides 82 exchanges in Iraq, Afghanistan, Kuwait, Qatar, United Arab Emirates, Kyrgyzstan, Cyprus, and other contingency operations. These exchange facilities are selling items such as electronics, health and beauty aids, and bringing a “little bit of home” to a far away place. AAFES also provides 196 food facilities and 548 concessions offering varied goods and services.

Donations. Support from the American public for deployed troops remains strong and the millions of care packages and other support continue to supplement the military Service's efforts to enhance morale. For example, in 2007 the USO implemented the “Combat USO Program” to provide sources of recreation and entertainment outside the fence lines of our deployed installations. Working closely with the Service Senior Enlisted leadership and with input from troops in the field, the USO has designed easily transportable morale kits known as “USO in a Box.” These kits contain everything from DVDs, to cards, to digital books, to snacks and energy bars. Whether at a Forward Operating Base in the Anbar Province or a remote outpost in Afghanistan, you can throw a “USO in a Box” kit in the back of your Humvee and have hours of entertainment to help pass the time between missions and until returning home to families.

In support of OEF/OIF, the Department authorizes the Armed Services Exchanges to sell prepaid phone cards to the general public for donation or gifts to military members and their families. Since inception of the “Help Our Troops Call Home” campaign, the American public has donated 249,107 phone cards valued at nearly \$6M. Similarly, DeCA and the Exchanges offer “Gifts from the Homefront” programs to contribute gift cards that can be redeemed in the commissary or exchange – at any location throughout the world.

CONCLUSION

Madam Chairwoman, I would like to conclude today by thanking the brave women and men who defend our Nation and their family members. I thank the Congress for your genuine concern for their welfare and continuing support for these quality of life programs.

RECORD VERSION

STATEMENT BY

MAJOR GENERAL JOHN MACDONALD
COMMANDING GENERAL
FAMILY AND MORALE, WELFARE AND RECREATION COMMAND

BEFORE THE

SUBCOMMITTEE ON MILITARY PERSONNEL
COMMITTEE ON ARMED SERVICES
UNITED STATES HOUSE OF REPRESENTATIVES

SECOND SESSION, 110TH CONGRESS

ON ARMY MORALE, WELFARE AND RECREATION PROGRAMS

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ARMED SERVICES

**STATEMENT BY
MAJOR GENERAL JOHN MACDONALD, COMMANDING GENERAL
FAMILY AND MORALE, WELFARE AND RECREATION COMMAND
ON ARMY MORALE, WELFARE AND RECREATION PROGRAMS**

Madam Chairman and Members of the Subcommittee, it is a pleasure to appear before you to discuss the progress we have made in adapting Army Family and Morale, Welfare and Recreation (MWR) programs to meet the challenges and opportunities of a transforming Army. Since I last addressed the Subcommittee in 2006, we have added significant value to the programs and services available to Soldiers and their Families to enhance their well-being.

SUPPORT TO DEPLOYED SOLDIERS

It is not news that we continue to maintain professional staff in Southwest Asia and the Balkans to support our deployed Soldiers. But we do. It is not news that we maintain MWR facilities at 56 sites in Iraq, Afghanistan, and Kuwait. But we do. And it is not news that 12 civilian MWR professionals currently serve, and a total of 65 have deployed since the terrorist acts of September 11, 2001. But they do, and they have. What was initially groundbreaking is now business as usual. And while not exciting to report, the routine nature of it is precisely what makes it good news. Deploying Soldiers can now expect a basic level of MWR support wherever they may be assigned. While they may not always be able to enjoy the full range of programs and services available to those stationed at permanent installations, they can be assured of a standard level of service even in the most austere environments.

We continue to improve support in small but important ways. I told you before of the sports and recreation, library, and "Theater-in-a-Box" kits provided to meet the basic MWR needs of deploying units. These remain mainstays of MWR support to deployed Soldiers. But you may not be aware of one of our latest and very popular additions. "Playaways" are a newly-developed product, about the size of an iPod, weighing in at only two ounces. They come pre-loaded with an entire audio book, ear buds, extra

batteries, and a lanyard – ready to go wherever Soldiers go. The Army MWR Library Program sends “Playaways” to troops in Iraq and Afghanistan. They give Soldiers an opportunity to escape, relax, and re-charge by listening to a book when there are few other recreational opportunities available – even in areas with no electricity. We have received numerous emails and letters in nine months from Soldiers in OIF/OEF expressing their delight with “Playaways.” They are extremely popular and a tremendous morale booster. The Army continues its long-standing tradition of providing recreational and educational materials to deployed Soldiers by providing a new audio gadget for today’s generation in an environment with few computers.

Support for deployed Soldiers does not stop at the war zone. Armed Forces Recreation Centers (AFRCs) are responding to the Rest and Recuperation (R&R) needs of both the Active and Reserve Components by offering discounted packages to personnel authorized R&R in conjunction with tours in Iraq or Afghanistan. Management and staff at the AFRCs have hosted almost 60,000 Active and Reserve Component Soldiers and their Families since October 2003 when the discounted program was initiated at the Edelweiss Lodge and Resort in Germany. The Edelweiss R&R Program along with programs at the Hale Koa Hotel in Honolulu, Hawaii, and the Shades of Green in Orlando, Florida, provide reduced rate room and dining packages. The Dragon Hill Lodge AFRC continues to support the needs of Soldiers and Families in Korea, offering a high-quality respite and taste of home. In recognition of a transforming Force, the Army, as Department of Defense Executive Agent for AFRCs, added the Cape Henry Inn and Beach Club at Fort Story, Virginia, to the AFRC community in April 2007. The existing facilities and services are planned for upgrade and expansion to enhance future traveler enjoyment at this prime vacation destination.

SUPPORT TO FAMILIES

President Bush discussed the vital role of military Families during his January 28, 2008, State of the Union address to the nation. “Our military Families also sacrifice for America,” he said. “They endure sleepless nights and the daily struggle of providing for children while a loved one is serving far from home. We have a responsibility to provide

for them.” The Secretary of the Army echoed that sentiment when he noted, “The Army Family, with more than two million Soldiers, spouses and children, is shouldering the load for 300 million Americans. The health of the All-Volunteer Force depends on the health of the Army Family.”

September 11th forever changed life for the Nation. The ensuing Global War on Terrorism has been uncharted territory for hundreds of thousands of Army spouses and children. In order to retain the All-Volunteer Force, the Army has had to rethink its way of doing business and devise strategies to provide support to all Families regardless of Component or where they live. The Army recognizes that Families are making considerable sacrifices, and we are working hard to deliver a quality of life commensurate with their level of commitment, service, and sacrifice.

The Army Family Covenant: The Army Family Covenant represents a \$1.4 billion commitment this year to improving the quality of life for Army Families. Army senior leaders recognize that while Soldiers may be the strength of the nation, their strength is in their Families. Leaders across the Army participated in Family Covenant signings at each Army installation, pledging to support Soldiers’ Families while they defend the Nation. The Family Covenant represents the Army’s commitment to providing Soldiers and Families a quality of life corresponding with their voluntary service and daily sacrifices. The Covenant pledges improved services and facilities for Army Families nationwide and overseas, and formally recognizes the sacrifices made on the home front while the Army is at war.

The Army Family Covenant acknowledges the Army’s commitment to:

- Standardizing and funding existing Family programs and services
- Increasing accessibility and quality of health care
- Improving Soldier and Family housing
- Ensuring excellence in schools, youth services and child care
- Expanding education and employment opportunities for Family members

The Army Family Covenant is backed by the Soldier-Family Action Plan (SFAP) which is the roadmap by which the Army will fulfill its commitment to Soldiers and

Families. It reaffirms the Army's commitment to Families and builds on recent investments in people, programs, and infrastructure. The SFAP details approximately 166 tasks, along with supporting actions and milestones to improve support to Soldiers and their Families.

Last year, we received an additional \$100 million for Family Support Programs to provide a jump-start to Family programs. Examples of benefits of this funding include hiring additional full-time staff in Army Community Service, as well as expanding childcare, respite care, Family Readiness Group Support Assistants, and youth services. The Army is reworking future budgets to sustain this increased level of investment in our Families.

Army Community Service (ACS): remains the preeminent organizational element responsible for providing personal and Family readiness support to commanders, Soldiers, and Families. Our ACS staffs prepare and sustain Families by teaching life skills and providing ongoing training. The Virtual Family Readiness Group (vFRG) links deployed Soldiers, units, and Family members on a secure web site that provides accurate and up-to-date information. These ad hoc Family Readiness Groups continue to be a huge success as Family members increasingly feel a sense of community and mutual support. We are currently supporting about 1,200 Army units, and receive a tremendous amount of positive feedback.

Army Integrated Family Support Network: The Army Integrated Family Support Network (AIFSN) delivery system offers Soldiers and Families the support they deserve, especially, the geographically dispersed. It "connects" the geographically separated Army and Families, and provides access to all Family programs and services. The idea is to harness the resources that are already in place, use personal contact and technology to improve on the delivery of service so Families get support closest to where they live.

From mobilized Soldiers, to recruiters, to Families located outside reasonable driving distances to military Facilities – AIFSN provides information, tools and resources. It is made up of Garrison Army Community Service, Child and Youth Services, Guard Family Assistance Centers, Reserve Readiness Centers, and civilian community agencies.

By combining and linking resources, AIFSN gives Army Families a choice: access services by phone, the internet, and when situations dictate, travel to the nearest facility to receive personalized support. AIFSN's network of support services increases overall Family readiness, improves quality of life and helps prepare Families for anything that might come their way.

Yellow Ribbon Program: AIFSN has incorporated the Army National Guard Yellow Ribbon program into the delivery of services to all Soldiers and Families. The Yellow Ribbon provides information, services, referral, and proactive outreach to Soldiers, spouses, employers, and youth throughout the entire mobilization process. When fully operational in September 2008, the network will address Soldier and Family issues head on by providing a single, holistic, institutional network of standardized services.

CHILD AND YOUTH SERVICES INITIATIVES

Army Child and Youth Programs remain essential to reduce the conflict between Soldiers' parental responsibilities and unit mission requirements. The Army has increased emphasis on supporting Soldiers and Families to include a promise to ensure excellence in schools, youth services, and child care. This commitment has enabled the Army to develop a comprehensive plan to meet the needs of Soldiers and Families. As the demand continues to increase, we again have taken a number of actions to address this need.

NDAA Authority to use O&M for CDC Construction: Section 2809 of the Fiscal Year 2008 National Defense Authorization Act (NDAA) extended the fiscal year 2006

authorization to construct Child Development Centers (CDCs) with Operation and Maintenance (O&M) funds. The NDAA provides needed flexibility to quickly meet the child care requirements at identified garrisons. As a result of the extension, the Army submitted notification to Congress of the intent to construct 38 CDCs using O&M funds under the temporary authority. These facilities will provide approximately an additional 5,700 child care spaces at 24 garrisons and are expected to be completed by the end of calendar year 2009. The Army is planning to use this authority for additional projects and will provide the appropriate notification. In 2007, the Army was able to add 10 child care facilities at garrisons using this authority. We thank the Congress for this authority to meet our critical child care needs.

Military Child Care in Your Neighborhood / Army Child Care in Your Neighborhood: Our on-post, Army-operated child care programs are becoming increasingly insufficient to meet growing demands. We can now provide services where Families live through some precedent setting initiatives – *Military Child Care in Your Neighborhood* and *Army Child Care in Your Neighborhood*. *Military Child Care in Your Neighborhood* is targeted to meet the child care needs of recruiters and Soldiers with independent duty assignments dispersed throughout the country, as well as Families who return to their home while the Soldier is deployed. *Army Child Care in Your Neighborhood* supports Families living in the immediate areas of many of our large installations. Under these programs, families pay reduced fees for child care services delivered through accredited community child care programs. Our newest effort is focusing on *Army School Age Programs in Your Neighborhood* for our elementary school age children and *Army Youth Programs in Your Neighborhood* for our teens.

Family Child Care: We continue to increase our efforts to sustain and expand our home-based Family Child Care program. Without the dedicated Family members who provide child care in government housing – especially extended hours, evening, and weekend care – we could not provide the care needed to support mission requirements beyond the normal duty day.

Child and Youth Programs play a vital role in helping reduce stress for Families. Garrison Child Development Centers and Family Child Care Homes have extended operating hours to better accommodate the high operating tempo. Respite child care gives parents time to attend to personal needs or take breaks from the stresses of parenting.

Operation Military Child Care: Reserve Component Families often need child care support and face additional costs when Soldier parents deploy. Our *Operation: Military Child Care* initiative “buys down” the cost of child care for these Families in the community where they live. Reserve Component Soldiers in all 50 states participate in this centrally funded Army Child and Youth Services deployment support initiative.

Operation: Military Kids (OMK): In conjunction with the National 4-H Office, *Operation: Military Kids (OMK)* is a collaborative effort in 34 states to support the children of our Reserve Component Soldiers by forming local support networks through schools, veteran services and youth groups, civic organizations, and businesses. In fiscal year 2007, more than 54,000 children participated in OMK events and services. This vital partnership with the Department of Agriculture is a success story that engages mainstream America in directly supporting our military youth. We are expanding these services to all military children in all states as part of the DoD Joint Services Family Assistance Program.

Respite Child Care: We have expanded our Respite Child Care to relieve stress on custodial parents during the deployment cycle. This is one of the most well received support services for our Families.

Extended Hours: High operational tempo often requires child care services beyond normal hours. We have extended hours to cover weekends, evenings, and even 24/7 requirements where necessary. We also provide crisis child care as needed.

Transportation: When Soldier-parents are absent, many children no longer have transportation that allows them to participate in after school programs and sports. We are working with school districts to add more bus routes and expanding our capability to assist children in accessing these vital activities thereby minimizing the impact of having deployed parents.

Accreditation: We are proud that our child care programs are maintaining a 95 percent accreditation rate, and 100% of our Child and Youth programs are DoD certified (equivalent to state licensing). This process is key to maintaining safe, healthy, quality programs that provide consistency for our children in a time when much of their lives is in flux due to their parents' mission requirements.

School Transition and Support Services: The Army is working with the Department of Defense and Department of Education to address school transition issues. Our School Transition Plan includes strategies for successful transition of military-connected students from overseas to schools in the United States. The plan focuses on coordination with national, state, and local education agencies to integrate military-connected students into local school systems. Communities are moving ahead with bond issues; exploring the potential for charter schools; and engaging the Department of Education and Department of Defense to discuss new avenues for funding facilities, transportation, teachers, and textbooks.

Three-hundred and twenty-five school districts are now signatories to an agreement to "level the playing field" for military students as they move between school systems – an increase of 125 school districts in the past year. In addition, 33 states now offer in-state college tuition rates to military students – even after their Soldier parent has moved to another assignment. We have also significantly expanded training opportunities to help school personnel better understand and recognize the impact of repeated deployments and the difficulties of military students transitioning into new school systems.

Impact Aid: Impact Aid is funding paid by the Department of Education to local educational agencies to offset the loss of property tax revenue due to a Federal presence, i.e., military installations, low income housing, or Native American lands. Impact Aid tends to lag behind the arrival of a Federal student by as much as two years. The Army is collaborating with the Department of Defense Office of Economic Adjustment (OEA) and Department of Education to determine if Impact Aid could be expedited to reduce this lag time.

The Army has addressed education, transition, and deployment issues by strengthening local partnerships and bringing together military and civilian communities to discuss Base Realignment and Closure, global rebasing, and other force structure changes. This has spurred the sharing of ideas and best practices and helped communities to prepare to seamlessly send and/or receive military students. Army Education Summits have provided the Army with first-hand information about school and community needs regarding school transition and deployment.

To address the effects of school growth as a result of Base Realignment and Closure (BRAC) and force structure changes, specifically, the Department of Defense Office of Economic Adjustment (OEA) and the President's Economic Adjustment committee are initiating significant collaborations. At the request of OEA, Federal agency representatives from the Department of the Army, Department of Defense, and Department of Education met with their counterparts representing the installations, communities, and school districts at Fort Bliss, Fort Riley, Fort Drum, and Fort Benning to assess local capacities to absorb projected growth and identify needs for assistance. The Army, along with OEA, is providing the Department of Education and school districts with student growth projections on a quarterly basis.

In-State Tuition: Since the military move frequently, Soldiers and their Families come under numerous state policies that may hinder their educational choices and make education progression unaffordable. The Department of Defense continues to address in-state tuition opportunities for military members and their Families. Certain criteria

have been established to allow in-state tuition for Soldiers and Families where assigned and continuation of these rates for students following the reassignment and departure of their parents is occurring in 33 states.

Our Child and Youth Programs send a message that the Army cares about Families, help minimize lost work time, influence decisions to stay in the Army, allow Soldiers and spouses to better concentrate on their jobs, and provide positive growth and development opportunities for children. We believe that is a great return on the taxpayer's investment in America's Army.

COMMUNITY SUPPORT TO FAMILIES

Soldiers are the strength of the nation, and their strength is in their Families. Similarly the strength of Families comes from support of the Community. The Army Community Covenant is designed to develop and foster effective state and community partnerships with the Army in improving the quality of life for Soldiers and their Families, both at their current duty stations, and as they transfer from state-to-state. The Community Covenant is tailored at the local level, with leaders at both local and state levels participating in covenant signings, planned between April and July 2008, recognizing the strength of Soldiers, their Families, and the support of the local community.

The Army Community Covenant is intended to reflect the support and commitment from local off-post communities, such as civic and business leaders, educators, and state and city government officials. While there are hundreds of community initiatives focused on support for Soldiers and Families, we have identified approximately 25 national/state and 50 local best practices to be included on a web site soon to be available to the general public.

Initiatives include efforts to have all 50 states provide in-state tuition to military Families. Spouse employment and unemployment compensation for displaced spouses are also being pursued. "Adopt A Unit" and "Adopt a Soldier" programs are examples of

local community initiatives, as are Freedom Camp for children of deployed, re-deployed, or about to be deployed Soldiers, as well as literary promotions, and military appreciation events.

BUSINESS PROGRAMS

Income generated by Business Programs (bowling, golf, clubs, and club-like activities) is vital to financial support of all MWR programs. Total revenues for fiscal year 2007 exceeded \$291 million and produced a net income before depreciation of \$46.1 million. This income allows business programs to maintain their own facilities and fund other critical MWR programs not capable of being self-sustaining. Specific accomplishments in support of the Army mission include:

Bowling: Army bowling centers have evolved into Family Entertainment Centers with add-on amenities such as glow-bowling, party rooms, video arcades, and billiards. Strike Zone themed food operations have enabled Army bowling centers to enhance service to Soldiers and Families. Bowling patrons enjoy state of the art centers that recorded over 8 million games bowled in fiscal year 2007. The Army's 91 bowling centers worldwide produced \$49.3 million in net revenue and \$8.5 million in net income before depreciation.

Food, Beverage, and Entertainment: Army Club Food, Beverage, and Entertainment and MWR Branded Restaurant Operations remain an integral part of business operations in Army communities. The 197 activities provide a variety of programs and services worldwide, enhance unit cohesion, and support community social needs. The activities earned net income before depreciation of \$15.3 million on net revenue of \$151.1 million.

Golf: In fiscal year 2007, the Army's 55 golf courses recorded net income before depreciation of \$10.2 million on net revenue of \$73 million. Soldiers, retirees, and Families played over 1.8 million rounds.

Events: The Army continues to offer diverse promotions that generate excitement and increase sales. These revenue-generating events are designed to offer fun programs for Soldiers and Families and build business for MWR facilities. Some recent promotions included Texas Hold 'Em, National Bowling Week, Fantasy Sports, Hebrew National Dress the Dog, and the Cadbury Schweppes Military Long Drive Championship. The Military Long Drive Championship was featured on ESPN as part of the World Long Drive championship week-long events. The promotion awarded \$10,000 to the top long driver, Airman Ryan Hixson from the Coast Guard.

FINANCIAL ASSESSMENT

Operationally, total Appropriated and Nonappropriated Fund support to the Army's MWR program for fiscal year 2007 amounted to \$1.8 billion. This represents a \$139 million increase over fiscal year 2006. The Nonappropriated Fund revenue was \$1,030 million, an \$81 million increase from fiscal year 2006. The Appropriated Fund support was \$819 million, a \$58 million increase over the previous year. This appropriated fund support includes supplemental funding of \$157 million in fiscal year 2007 and \$32 million in fiscal year 2006.

The compiled net income for the military MWR Nonappropriated Fund Instrumentalities was \$83 million, or 8.1 percent of total revenue. This represents a \$51 million increase from fiscal year 2006. Increased Post Exchange dividends and reduced operating costs as a percent of revenue account for this positive result.

The Army MWR Funds' collective financial position is sound as of September 30, 2007. The current ratio, or current assets compared with current liabilities, was 1.7 to 1, the same as September 30th of the previous year.

The DoD standard is to use Appropriated Funds to fund 100 percent of costs for which they are authorized. No standards are specified for the uncategorized,

Appropriated Fund-authorized common service support or overhead expenses, and these expenses represent the major use of Nonappropriated Funds in lieu of authorized Appropriated Funds. The metrics specify funding minimums of 85 percent for Category A (CAT A) activities, and 65 percent for Category B (CAT B) activities. In fiscal year 2007, the ratio of APF support for CAT A was 83 percent, the same as it was in fiscal year 2006. A revised methodology for allocating overhead, which more logically portrays the application of APF and NAF support, was instituted in fiscal year 2006. However, for CAT A activities, excluding the overhead proration, the metrics were 91 percent for fiscal year 2007 and 89.5 percent for fiscal year 2006. APF support to CAT B was 65 percent for fiscal year 2007, versus 67 percent for fiscal year 2006.

The Army has implemented Uniform Funding and Management (UFM), authorized by the Fiscal Year 2003 National Defense Authorization Act. This major business reengineering initiative merges APF and NAF for the purposes of providing MWR services using NAF rules and procedures. The process of UFM does not increase or decrease the levels of APF supporting MWR. Rather, it is a new way of executing the program with an emphasis on eliminating redundancy and improving business practices in providing support for the functions of procurement, financial management, and human resource management. We are well on the way to having a routinely prepared, single financial statement for the APF and NAF resources of the MWR program. Predictability and standardization of services and programs has improved as funding, systems, and processes have improved.

MILITARY CONSTRUCTION (MILCON)

Child Development Centers (CDCs) play an increasingly critical role in our ability to support Soldiers and their Families. To address the escalating need for quality child care, in the fiscal year 2008 construction program, the Army included 13 CDCs (12 MILCON funded and one BRAC MILCON funded). Three additional BRAC MILCON funded facilities – two Youth Centers and one Physical Fitness Center -- rounded out our fiscal year 2008 MILCON program. The 13 CDCs are programmed for United States Southern Command Headquarters in Miami, FL; Fort Riley, KS; Fort Campbell,

KY; two at Fort Bliss, TX (one BRAC funded); Fort Hood, TX; Fort Bragg, NC; Fort Drum, NY; Fort Lewis, WA; Fort Benning, GA; Fort Polk, LA; Fort Leonard Wood, MO; and Redstone Arsenal, AL. Fort Bliss, TX will receive both Youth Centers and the Fitness Center. In addition, the Brigade Complex – Barracks and Support Facilities at Vicenza, Italy, includes a branch library.

To continue progress made in 2008, for fiscal year 2009, the Army's construction program includes four Child and Youth projects and two Fitness Centers, all MILCON funded. The Child and Youth projects provide a total of seven CDCs and one Youth Center. They are programmed for Fort Campbell, KY; Fort Lewis, WA; Fort Richardson, AK; and Fort Stewart, GA. The Fort Lewis and Fort Stewart projects each consist of three facilities; one of the Fort Stewart facilities is the Youth Center. The Fitness Centers are programmed for Fort Stewart, GA and Fort Carson, CO.

PUBLIC PRIVATE VENTURES

MWR adopted public private ventures (PPV) as a way to augment traditional delivery of MWR facilities and services for Soldiers and Families and generate residual income for the installation MWR fund. This mutually beneficial program enables installation commanders to leverage efficiencies and maximize the value of installation real estate through PPV partnerships. The Army's first PPV project was a car wash at Fort Carson which opened in August 1999. The Mountain Post Car Wash is an eight-bay facility that has contributed over \$350,000 to Fort Carson's MWR fund. Our most recent PPV, also at Fort Carson, is another good news story. The Army awarded its first contract for a self-storage facility to "Mountain Self-Storage" in December 2005. The facility, which opened on December 8, 2007, has been a great success, registering 98 percent full within two days of its opening. The project provides Fort Carson with a facility representing a nonappropriated fund cost avoidance of \$4.4 million in NAF construction savings. As negotiated and agreed to by Mountain Self-Storage and the Fort Carson MWR fund, Fort Carson will receive from two percent to thirty percent of gross revenue based on a sliding scale, with \$600,000 being the lowest and the highest being \$900,000. Since the inception of our PPV program, we have awarded ten

projects equating to a NAF construction cost avoidance of \$39.4 million coupled with deposits of over \$1.7 million to installations MWR funds. We continue to pursue PPVs for both cost avoidance and as revenue generators. We have 17 more projects in varying stages of development, representing approximately \$42.8 million in cost savings.

CONCLUSION

The Army's single most important weapon and advantage is the Soldier. Our strength lies in our Soldiers, and their strength comes from their Families. Experience has taught us – and research reinforces – that one of the best ways to support the mission and care for Soldiers is to care for their Families. Soldier and Family programs and services must adapt as the Army grows and transforms. We are accomplishing that by implementing the Army Family Covenant and other programs that standardize services, increase the accessibility and quality of health care, improve housing and installation facilities, provide excellence in schools and youth services, and expand spousal education and employment opportunities.

The Army will continue to invest in our centerpiece – Soldiers – and the Families that support them. We are on the right track and moving forward; installations and quality of life are better today and will be even better tomorrow. With your continued support, the Army will restore balance, build the readiness necessary in an era of persistent conflict, and remain The Strength of the Nation.

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HOUSE ARMED SERVICES COMMITTEE

STATEMENT OF
REAR ADMIRAL ROBERT BIANCHI
BEFORE THE
HOUSE ARMED SERVICES COMMITTEE
SUBCOMMITTEE
ON
MILITARY PERSONNEL
APRIL 17, 2008

NOT FOR PUBLICATION UNTIL
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HOUSE ARMED SERVICES COMMITTEE

Mr. Chairman and Distinguished Members of the Subcommittee, it is my great privilege to represent the Navy Exchange Service Command (NEXCOM) and our 15,000 dedicated associates worldwide. This is my first time appearing before you and I appreciate the opportunity to update you on the Navy Exchange System (NES).

NES programs exist first and foremost to provide quality of life support to our warfighters. The role of the Navy Exchange is a vital and enduring one. By improving the quality of life of our customers and taking care of their needs, we allow our shipmates to focus on their mission and ultimately prevail in battle. Because at the end of the day, that is what it is all about. We are a combat readiness multiplier and preserving this non-pay benefit is our covenant, our social compact with our Sailors.

A Valued Benefit

Navy, DoD, and Congress have long recognized that Exchanges are instrumental in supporting recruitment and retention. A Navy survey has validated this important role. Last year we received the results of the Navy's 2006 Quality of Life and Retention Survey, which asked Enlisted and Officer spouses to rank the top 10 important Navy support programs and services that affect retention. Navy Exchanges were ranked in the top five, just behind health care, retirement benefits, housing allowances and commissaries.

NES programs touch Sailors and their families every day through Navy Exchanges, Ships Stores, Navy Lodges, Navy Uniforms, and Personal Telecommunications. Globally, NEXCOM provides management for 104 Navy Exchange complexes with approximately 305 stores, 43 Navy lodges, 157 Navy Ships Stores, 37 Military Sealift command Ships Stores, Navy's Retail Uniform Program Management Office, and worldwide Telecommunications services afloat and ashore. The NES provides more than just merchandise. We provide food service, gas stations, auto service centers, a toll-free uniform call center and walk-in uniform stores, hair care, vending services, laundry and dry cleaning services to name a few.

A significant difference between Navy Exchanges (NEX) and commercial retailers is the broad diversity of our store portfolio. We are predominantly an organization of small stores. The top third of stores account for just below 90% of our total exchange operating profit. The remaining 66% of our stores, while generating just 10% of our profit, serve a critical role. Our mission is based on serving our Sailors and their families no matter the size of the installation. Where there is a Navy presence, NEX provides stores to meet Navy's requirements for a comparable level of Quality of Life support system.

Our customers themselves tell us they value the benefits our Navy Exchanges provide in two ways – increasing sales performance and increasing customer satisfaction scores. Our total sales execution has been on a continuing upward trend since fiscal year 2001, meeting or exceeding our Board of Directors approved annual financial plan targets. Despite a declining active duty population, we have averaged 5% annual sales growth over the past 5 years, which is in line with the average commercial retail industry growth of 5.1% during this same period of time. Last year, we were very pleased to reach our highest-ever score of 80 on our Customer Satisfaction Index (CSI), continuing a consistently improving eight-year trend. This places us among the top US retailers.

This survey also tells us that delivering value, not just in retail operations, but also through the broad services portfolio we offer, is very important to our families.

Our Sailors know the dollars they spend in our stores directly support their quality of life programs. In FY06, \$54 million (100% of our profits) supported these programs. \$40 million goes directly to Navy Morale, Welfare and Recreation programs and \$14 million will be invested in new NEX facilities to enhance their shopping experience. Our Ships Store Program generated another \$12 million of dividends for afloat recreation programs.

The Navy Lodge Program is self-sustaining, receiving no appropriated funds except for some limited base support as well as utilities funding overseas. In the hospitality business, guest service is the key to success and Navy Lodges rank high with a guest satisfaction rating of 94% compared to the industry average of 71%. A recent GAO audit noted that the Navy Lodge is the only lodging program that collects and analyzes guest feedback, conducts systematic performance reviews similar to other hotel chains and compares its performance against industry standards for cost, service, amenities and facilities.

Integral Part of Navy

We recognize our valuable role within Navy to support our Sailors and their families. Our strategic initiatives are aligned with Navy's and we will always do what is right for the Navy. As a part of the Naval Supply Systems Command, we are constantly focused on our customers – it is their success that is the ultimate measure of our success.

The Navy's Morale, Welfare and Recreation/Navy Exchange Board of Directors have joint oversight of the MWR and NEX programs. It is comprised of senior military leaders across the Navy Enterprise. Within Navy, we have found it to be of great benefit to have one Board of Directors that oversees both MWR and NEX. We are tied together by much more than the dividends we provide to MWR programs. We serve the same customers and work together to ensure sound fiscal operations, strong facility capitalization, and programs that compliment each other. Senior Navy leadership involvement is critical to the success of both programs.

NEXCOM is a "first responder" in Navy's emergency planning process. Local NEXs and Navy Lodges supported an influx of evacuees impacted last year by the California wildfires. NEX San Diego was first on site to help assist Navy's support to Sailors and their families at the shelters providing emergency merchandise, mainly health and comfort items, to support those military families who had to evacuate their homes. NEX concessionaires also provided support. McDonald's sent Happy Meals to the various sites and Subway stayed open 24 hours. Sprint provided free local and long distance calling to all Navy and Marine Bachelor Quarters and Navy Lodges to assist relocated military personnel. In addition, NEX Mini Marts at San Diego, North Island, Submarine Base, Liberty Station and Coronado stayed open 24/7 during the height of the wildfires to support on base evacuees. Some evacuees fled to area Navy Lodges that quickly became 100 percent occupied. Fortunately there was no damage at any NEX facility or Navy Lodge. These efforts demonstrate our commitment to supporting the military members as well as the commands.

Our Mission...Supporting the Warfighter

As Navy operations evolve around the globe, so does our Navy Exchange presence. NEXCOM opened its newest store at Camp Lemonier in Djibouti, Africa on June 16, 2007. NEX Djibouti occupies nearly 3,500 sq ft of selling space, a barbershop, gift shop and tailor shop. NEX carries a variety of items including DVDs, CDs, video games and consoles, TVs, laptops, cameras, sunglasses and more name brand clothing for men and women.

In November we opened a new store in Rota, Spain bringing a great quality of life enhancement to our customers in Spain. The new store is all about convenience – it not only combines five outlying stores into one location, but it is also co-located with the commissary. The complex includes a Subway, We Proudly Brew Starbucks, video rental, mini-mart, barber and beauty shops, laundry/dry cleaning and photo studio. Sales for the first weekend were \$660,000.

These new and renovated stores, constructed using our NEX non-appropriated funds, provide the infrastructure necessary to improve our retail and service offerings. This coming year, our major construction plan of \$45 million continues our investment in enhancing the benefit to our military.

When our Sailors go to sea, our Ships Store Program is there to take care of their needs. Sailors rate Ships Stores as one of the top five quality of life programs afloat, providing quality services and products for day-to-day shipboard living and funding for afloat recreation programs. Leveraging commercial best practices in technology and processes, Ships Store Program is engaged with Navy in many initiatives to realize increased efficiencies, with less Sailor manpower and at a reduced cost, while continuing to provide Sailors and Marines at sea with exceptional Quality of Life support.

Keeping in touch with home is important to our Sailors. Last year, our Sailors' phone calls from our ships totaled 17.5 million calling minutes. Most importantly, during 2007 we were able to once again lower the rate on our calling cards, which is now down to 45 cents per minute, which is a 55% reduction from the rate 3 years ago. NEXCOM and AT&T teamed up again to provide free phone calls to military members underway during the holiday season. NEXCOM and AT&T have been providing these free phones cards since 2001. Each Sailor, Marine and Coast Guard member underway received a \$10 prepaid phone card for a total of 25,000 free cards distributed during the holidays.

We are proud to take an active role in supporting our wounded warriors and their families. Working with hospital and Marine Corps liaisons, our Navy Lodges provide guest rooms to wounded service members and their families. At Bethesda, MD, over 5,500 room nights were utilized during last year. Senior Navy and DoD inspections of these rooms have always had very positive results. Our Telecommunications Program provides free phone cards to the wounded at the hospitals and aboard USNS Comfort. We have also had strong support from our vendor community. Working with Nintendo, we provided 20 Wii game system kits to three military hospitals' physical therapy departments to help recovering military patients.

Taking care of our warfighters doesn't stop when they retire from active duty. Retirees have earned their privileges and the exchanges play a vital role in fulfilling our nation's commitment to them.

During 2007 we initiated an effort to help us better meet our customers' expectations – Customer Segmentation. Before, the Navy Exchange largely addressed our customer base in terms of active-duty and retirees. NEXCOM's new segmentation tool breaks down the Navy Exchange customer base into eight life stages. These life stages consider our new recruits and single sailors, service members with families and those with grown children, our military members who are retired yet still active in the workforce and patrons who are more likely retired with a fixed income. By focusing on these segments of our customers, our buying and store staffs, as well as our suppliers, can accurately tailor the merchandise assortment and address specific needs for the demographics of each store location. We are proud of this tool and believe that this is a key differentiator to help us improve our support to the warfighter.

Supporting the Families

We also are there to support the families of our warfighters. When Sailors deploy they should be able to focus on their mission and specific jobs, knowing that there is a support network back home taking care of their families. Before the House Armed Services Committee earlier this year, both the Secretary of the Navy and the Chief of Naval Operations stated the Navy's priority was to develop and support our Sailors and their families. Admiral Gary Roughhead stated in his testimony: "Supporting Navy families is critical to mission success."

We know that our exchanges are important to all our family members, particularly when their loved ones are deployed or they are located overseas. Exchanges provide more than a place to shop. They are community hubs, providing an important connection to the military community. All our stores support the Navy community they serve with many events. NEXs sponsor health and safety awareness programs such as health and fitness fairs, blood and bone marrow drives, breast cancer awareness days, fire prevention, Ident-a-Kid programs, and motorcycle safety. Events focused on families include baby day events, back to school events, bridal events, fashion shows and Military Spouse and Ombudsmen Appreciation events. During the holidays, activities include Breakfast with Santa, Angel Tree, Toys for Tots, and Kids Shopping Events. Our industry partners are instrumental in making many of these events possible. With their support we are able to bring many celebrities to our stores to meet our military families. Last year these included John Schneider (from Dukes of Hazard), Elliot Yamin (from American Idol), Kurt Busch (NASCAR driver), Deborah Norville (TV personality), Ted Nugent (rock musician), the Harlem Globetrotters and the Navy's own retired SEAL and Survivor contestant, Rudy Boesch. These are just a few of the many ways we are a valued part of the military community.

Navy family members represent 30% of our 15,000 worldwide associates. We value their contribution to our programs. Our continuity of employment program helps them to continue their Navy Exchange career as they move around the world with their Sailors.

Partners Delivering Quality of Life

NEXCOM shares responsibility for Navy Quality of Life with Commander, Navy Installations Command (CNIC) who manages the Morale, Welfare and Recreation

programs. We work closely together with CNIC to ensure a seamless total approach to Sailor and family support.

We have been actively developing cooperative business initiatives with the Army and Air Force Exchange System (AAFES), and Marine Corps Community Services that will increase efficiencies and effectiveness of all our programs while allowing us to best serve our respective services. We just finished our seventh annual cooperative effort report to DoD. Exchanges have continued to build upon years of collaborative initiatives with a recent focus on three core cross-functional teams: logistics, indirect procurement and enterprise architecture. Commodity Councils have been established to combine indirect procurements to leverage spend. In November 2007, the exchanges implemented cross acceptance of exchange gift cards. Each exchange can now redeem a gift card, no matter whether it was purchased from AAFES, NEXCOM or Marine Corps Exchange. NEXCOM achieved an eight percent savings by consolidating our container loading services with AAFES for shipments destined to Japan. In addition to searching new initiatives, some cooperative efforts continue to be part of our normal operating procedures. Among these efforts are the all Services Exchange Catalog, combined house brand credit card and joint private label merchandise. Our respective Exchange Boards of Directors are pleased with the progress we are making cooperatively. We are encouraged by our progress and will continue to work together to better serve our military families.

We collaborate with the Defense Commissary Agency (DeCA) as much as possible. Our joint efforts work well at installations where the commissary and exchange are co-located where we conduct joint sales events, whether they be parking lot case sales events or in-store cross promotion of each other's merchandise. Additionally, we've partnered with all the exchanges and DeCA to find alternatives for shopping bags, which include our re-useable "green" bags and research into biodegradable bags that are more earth friendly.

Our industry partners share our commitment to our Sailors and their families. We could not do it without them. They are working side by side with us as we adapt new business processes to improve our operations. Many of the special events in our stores are a result of their contributions, particularly our Customer Appreciation Days which are a way to give back to our patrons in remote and overseas areas like Guantanamo Bay, Cuba and Naples, Italy. These are all day events with many activities, promotions and celebrity appearances, all simply to say thank you to our Navy families overseas. I thank them for the valuable role they play in delivering the exchange benefit.

Since assuming command of NEXCOM and after conducting site visits around the world, I can tell you that I am most impressed with the dedication and professionalism of the team members I have met. It is clearly evident that our successes are because of each and every one of our associates. Our diverse team of more than 15,000 dedicated men and women around the world collectively possess the wide array of knowledge, skills, and abilities that enable us to accomplish our mission. I have personally witnessed the emotional connection our associates have with our customers, especially in our overseas locations. I saw superb examples of teamwork, customer interaction and integration with the base and the local community. Even though I have traveled to some diverse areas in terms of geography and store size, one thing has remained constant – our unwavering service to our military customer. Everywhere I went, I saw our NEX and Navy Lodge

associates going above and beyond to ensure that our customers' needs were taken care of.

This Subcommittee's support and dedication to the men and women who serve our country is outstanding. Your support for eliminating certain merchandise restrictions imposed on military exchanges is much appreciated, and shows your commitment for improving the resale benefit for our warfighters. Your continued support of full funding of Second Destination Transportation requirements for exchange merchandise sent overseas is appreciated. It aids in our ability to serve those military personnel stationed far from home, providing them the same merchandise price as they would pay back in the United States. Within the Department of the Navy, we work collaboratively to make certain our exchange transportation requirements are met, while ensuring we are good stewards of these funds. On the behalf of our dedicated men and women serving worldwide, I thank you for your support. I look forward to working with you. Continuing our partnerships with Congress, the Department of Defense, the Military Services, and Industry will ensure that exchanges are poised to go forward and continue to improve the quality of life of our service members.

The Way Ahead

Today's economic environment is having an impact on consumers. During these trying economic times, it is especially important that our Sailors and their families know they can count on their Exchanges for the savings and value they need. Our ability to provide that savings is dependent on our ability to operate efficiently and effectively. We will continue to work on improving our processes to ensure we are the most efficient organization we can be.

Where our brick and mortar stores cannot touch our customers, we are looking to multi-channel retailing to meet that need. As the digital lifestyle becomes more pervasive, customers have come to expect their shopping experiences to transcend the confines of the traditional brick and mortar store. Therefore, the NEX is reviewing possible multi-channel business models to both meet our patrons' growing expectations and to improve their quality of life.

As good stewards of our environment, Navy Exchanges are going green. Our gas stations in largely populated areas offer alternative fuels. In keeping with trends in the commercial retail sector, multi-use reusable shopping bags are available at Navy Exchanges worldwide. In addition, we are conserving energy/resources and improving profitability by constructing energy efficient buildings that incorporate Leadership in Energy and Environmental Design (LEED) principles, retrofitting existing facilities with energy efficient features, and strongly supporting Navy's "green" initiatives with a dedicated Energy Manager and robust NEX Energy/Resource Conservation Program. NEX is always looking for ways to help the environment and make the shopping experience a pleasant one for our customers.

While there may be many changes in our business environment, the philosophy of the Navy Exchange System will not change – we exist solely for our shareholders – the dedicated men, women and families who serve or have served our Navy and our great country. All of our worldwide NEX associates share a commitment to not only meet, but exceed the needs of our valued patrons by providing the best value products, services and

customer service. In short, we all strive to delight our customers. I am proud to take over the helm of the Navy Exchange and look forward to building on our past successes as we continue to improve military quality of life.

STATEMENT BY:
BRIGADIER GENERAL KEITH L. THURGOOD, USA
COMMANDER, ARMY AND AIR FORCE EXCHANGE SERVICE
BEFORE THE
MILITARY PERSONNEL SUBCOMMITTEE
OF THE
COMMITTEE ON ARMED SERVICES
UNITED STATES HOUSE OF REPRESENTATIVES
110TH CONGRESS, 2ND Session
HEARINGS ON
MORALE WELFARE AND RECREATION PROGRAMS
AND RESALE ACTIVITIES
17 APRIL 2008

NOT FOR PUBLICATION
UNTIL RELEASED BY
THE HOUSE ARMED
SERVICES COMMITTEE

Madam Chair and Members of this Sub-committee, as this is my first opportunity to appear before you as the Commander of the Army and Air Force Exchange Service (AAFES), I want to express my sincere gratitude for your steadfast support in preserving a strong and effective exchange benefit for the men and women of the Armed Forces and their Families. I look forward to working with you to ensure AAFES continues to play a significant role in the quality of life of Soldiers, Airmen, and their Families through its operational and financial contributions to military Morale, Welfare, and Recreation (MWR) programs.

I appear today to testify on behalf of AAFES; to share some of our accomplishments from 2007 and update you on our strategies to meet the challenges we face in 2008 and beyond. I am proud to report that AAFES continues to fulfill our nearly 113 year old mission of providing quality merchandise and services at competitively low prices while consistently generating earnings to support MWR programs. AAFES operates more than 3,100 facilities worldwide, in 30 countries, five U.S. territories and 49 states. Perhaps best known for our BX/PX retail stores, AAFES also runs more than 2,200 food and theater operations including 956 name brand fast food restaurants on both a direct and concession basis. These include brands our customers know from home such as Burger King, Taco Bell, Subway and Starbucks.

Since troops were first deployed to the Middle East after 9/11, AAFES has aggressively extended the Armed Forces' exchange benefit to the frontlines. Beyond OEF and OIF theaters, AAFES has also delivered support to Soldiers, Airmen, Sailors, and Marines at Landstuhl Regional Medical Center by providing civilian clothing as part of Public Law 1559. With the 2007 opening of the Center of the Intrepid at Brooke Army Medical Center (BAMC) at Ft Sam Houston, TX, AAFES is taking lessons learned in serving troops recovering from injuries received in a war zone and implementing them at BAMC, to ensure America's "wounded

warriors” have access to all of the essentials available at the BX/PX. AAFES provides a dedicated personal shopper program at BAMC and offers in-room barber/beauty services to inpatients at Walter Reed Army Medical Center. These services allow troops recovering from amputations, burns, and other serious injuries to concentrate on their rehabilitation instead of worrying about how they will get a haircut or a clean pair of socks. AAFES is also assisting those troops recovering from injuries transition into the civilian workforce by taking part in the Department’s “Hiring Heroes” program. AAFES participates in the program’s job fairs and posts AAFES job opportunities on the Hiring Heroes website. These programs are certainly indicative of AAFES’ commitment to America’s troops. Regardless of whether they are at home station, deployed overseas, providing support in the wake of a natural disaster, or even in the hospital, AAFES will be there to serve and support.

When customers cannot get to a store due to contingency deployment or geographic separation, or when they simply prefer shopping from the comfort and convenience of their home, AAFES provides a robust catalog and e-commerce program operated on behalf of all of the military exchanges. In 2007, the All-Services Exchange Catalog and Exchange Online Store offered customers more than 30,000 items via www.aafes.com, thousands of items from vendor partners and hundreds of thousands of items from ExchangeOnlineMall.com partners including Apple, Bose, Books-a-Million and Office Depot.

The scope of our business operations goes well beyond the conventional offerings of civilian retailers. Working with local community businesses and small entrepreneurs to include minority and women-owned businesses, AAFES contracts for a multitude of personal services and commodity sales to supplement the support provided to the military community. Overseas, AAFES operates bakeries and water bottling activities to provide Military Families the same fresh, high quality branded products they would enjoy in the United States: Wonder Bread,

Country Hearth Bread, and Culligan Water, just to name a few. We provide these products for sale in exchanges as well as to overseas commissaries, troop dining facilities, military hospitals, and MWR clubs. As the designated Department of Defense (DoD) School Feeding Authority, AAFES provides 24,000 nutritious meals per day to 92 schools in 9 countries on a break even basis.

AAFES manages the combined exchange in-house brand credit card, MILITARY STARSM Card—a low interest credit card that has unique military features such as: 10 percent off first day's purchases; no annual fee; no late or over limit fees; financial education through statement inserts, statement messages, online resources; 24/7 customer assistance; and exclusive military promotions throughout the year. As part of AAFES' commitment to our patrons and to honor those serving in harm's way, AAFES offers a reduced interest rate and optional payment plan for deployed cardholders and has absorbed more than \$1.85 million in Military STAR Card debt for those killed in action since September 11, 2001. Furthermore, our customers are extended moderate credit limits to give them an opportunity to build good credit which is an important attribute of the program. The MILITARY STARSM credit program is a benefit enhancer that protects military members from predatory credit schemes. The current MILITARY STARSM card interest rate is 10.24 percent compared with interest rates of up to more than 25 percent among competitors' in-house credit programs. Annual sales from the MILITARY STARSM Card are \$1.5 billion across the three military exchange systems. In addition to the direct customer benefits, the joint MILITARY STARSM Card program provides a financial benefit to the exchanges by avoiding merchant fees of approximately \$25 million annually that exchanges would have paid if other commercial credit cards were used. To increase the utility of the Exchange Credit Program, AAFES is piloting a cutting edge dual credit card. This co-branded card combines the features of the MILITARY STARSM line of credit with a MasterCard for use in the exchange and

anywhere MasterCard is accepted. The new MILITARY STARSM Rewards MasterCard[®] provides patrons a competitive interest rate and rewards features that have quickly become an industry standard. Customers will earn two reward points for each dollar spent for qualifying purchases on installation at exchanges, commissaries, and MWR programs. MasterCard purchases everywhere else will earn one point per dollar.

While 2007 was a challenging year for competitive retailers, AAFES continues to demonstrate it is a strong and viable organization with the strategic resilience and financial health to compete in the global marketplace. Revenues for AAFES fiscal year (FY) 2007 were \$8.7 billion, a decrease of \$204 million over FY 2006 in part due to the fact that the retail calendar for FY 06 was 53 weeks versus 52 weeks in FY 2007. Despite this decrease in revenues, AAFES ended the year with earnings totaling \$426 million representing a 27 percent increase from FY 2006. The preliminary results for FY 2007 indicate that AAFES is expected to contribute \$269 million in dividends which support the Army, Air Force, Marine Corps, and Navy service members and their Families. This return represents the highest dividend returned to the Services since 2002. These remarkable results are due to outstanding efforts to improve supply chain efficiencies across the enterprise and in part attributable to Congressional supplemental funding for reimbursement of AAFES expenses in support of the War on Terror. For FY 2007, AAFES was reimbursed \$92 million for actual operating expenses. I want to express my appreciation for this committee's support for this funding which helps offset extraordinary expenses incurred to support Operations ENDURING FREEDOM (OEF) and IRAQI FREEDOM (OIF).

AAFES earnings generate dividends for the military community while simultaneously funding its internal capital reinvestment program to ensure its facilities provide a shopping environment that is world class and an undeniable benefit to the military community. In 2007,

AAFES completed \$344 million in capital improvements at 57 installations worldwide providing shoppers with 496 new or renovated retail, dining, and services destinations. Among these were eight new shopping centers including Ft Campbell, KY, Peterson AFB, CO, and Ft Irwin, CA. More important than the numbers, this investment in AAFES facilities directly impacts more than 951,000 active duty sponsors and Family Members who enjoy an enhanced in-store experience today and for years to come. AAFES continues to address OCONUS construction in support of Soldiers, Airmen and Families, including closely monitoring the Kaiserslautern Military Community Center (KMCC) construction at Ramstein Air Base, Germany.

The current capital program includes construction requirements resulting from the impact of Base Realignment and Closure (BRAC), as well as Global Defense Posture and Realignment (GDPR) and Grow The Army (GTA) initiatives. The Department directed the use of APF for nonappropriated fund (NAF) construction requirements at gaining locations.

AAFES operates in an extremely competitive and ever-evolving global marketplace. In order to compete in 2008 and beyond, we are refining our value proposition to be so clear and convincing that every potential customer understands AAFES is the best and first choice for quality merchandise and services. To “Win the Future,” AAFES is committed to a mantra that captures the essence of our strategies and a “handle” our associates can grasp: Think BIG and act small. Thinking BIG allows us to build on past successes and at the same time move AAFES toward a culture of loyalty, ownership and continuous improvement. Thinking BIG is about changing the productivity performance curve in a way that drives earnings and dividends to historic levels. It is about imagining the possibilities of a new future, setting BIG goals and holding ourselves accountable for delivering results.

Even as we challenge ourselves to think BIG, we also know that our strategies must be turned into executable tactics. Acting small means immediate, proactive action at the lowest

levels of the organization. It means turning our strategic plans and concepts into actionable tactics at the store level. It means flawless execution of all the ideas across multiple fronts and venues simultaneously. It means we understand all retail is local — and we must create life long emotional connections with customers one person at a time. It means every Associate is an owner of this business and held accountable and rewarded for performance. These ideas are built around an operating model with five strategic tenets that support our stated vision and mission. And, each is designed to support our “Winning the Future” plan. These five strategies are: drive enterprise productivity, foster collaboration, get back to basics, leverage enabling technology, and sustain the future.

AAFES is committed to fulfilling the Congressional intent to maintain the quality of life of Military Families by offering an affordable American lifestyle to those serving overseas. We diligently manage our share of the Army’s Second Destination Transportation budget, continually seeking ways to reduce costs while improving service. Over the past few years, AAFES has undertaken a number of initiatives to improve effective management and stewardship of APF; resulting in consistent cost savings through efficiencies and best management practices. We continue to target all phases of the supply chain from procurement to point of sale to ensure AAFES systems, processes, and business rules get the right merchandise to the right customers at the right time in the most efficient way possible. Cost savings realized are passed on to the customer at the register and through increased MWR dividends.

A big part of driving supply chain productivity is building new businesses. AAFES is positioned to accelerate profitable growth by developing innovative lines of businesses and bringing them to market as quickly as possible. For example, we have all witnessed significant changes in the telecommunications industry and AAFES is restructuring this business to match the changing needs of Soldiers and Airmen. AAFES has been in the telecommunications

business for nearly 20 years and our major products – calling cards, payphones, and telephones in barracks – have served our customers well, but their needs continue to evolve. No matter where they serve, Military Families want the same entertainment and communications opportunities found in any major US metropolitan city. AAFES is uniquely positioned to meet this need and is pursuing two new telecom initiatives: wireless and triple play; bundled TV-internet-telephone. These initiatives will give Soldiers and Airmen stationed at US bases overseas access to telecommunication technology available in the United States. For example, many Americans are using Voice over Internet Protocol (VoIP) for their phone service. Our new initiative provides Airmen at Yokota Air Base, Japan, VoIP phone service. For a flat rate of \$29.95, Airmen and their Families can call back to the United States as much as they want. In the first four months of VoIP service, Airmen at Yokota Air Base have already placed more 2.3 million phone calls totaling more than 13.6 million minutes. Our business model allows for the development of a global network for Soldiers and Airmen designed to follow them when they deploy or relocate.

AAFES is exploring another new business concept which will bring new and complementary retail developments to selected military installations in an effort to keep pace with evolving trends in commercial retail development. In recent years, the retail landscape has increasingly shifted away from traditional formats to emerging “Lifestyle Centers”; retail developments reminiscent of the small downtown shopping districts and town centers characterized by a sense of place and spirit of community. Today, Lifestyle Centers and mixed use developments offer a sense of place by bringing a combination of retail, entertainment and convenience to today’s consumer. AAFES is developing a Lifestyle Center concept which will feature a traditional AAFES main store and concessions, a co-located Defense Commissary Agency (DeCA) commissary, MWR activities like casual dining and nationally branded gym,

along with complementing specialty retailers and entertainment venues. This is a great example of how AAFES is working to effectively leverage NAF instrumentality and industry funding for maximum effect and collaborating with our sister resale agencies and commands.

I believe the future belongs to those who build relationships and collaborate. This includes creating synergies with industry partners as well as the entire military resale community. We want to be recognized as an enabling business partner and a great place for our Associates to grow and contribute. For example, for the second year in a row, AAFES has been recognized by DiversityBusiness.com as one of America's Top Government Organizations for multicultural business opportunities. We intend to continue to increase participation and partnerships with minority- and women-owned businesses. Diversity helps build our business while helping others grow theirs. Like all sustainability ideas, diversity not only makes good business sense, it is good business.

AAFES is also continuing to strengthen relationships with other members of the defense resale system, including our sister exchanges, through exchange cooperative efforts. A sustained focus on cooperative efforts between AAFES, the Marine Corps Exchange (MCX), and the Navy Exchange Service Command (NEX) is paying off for Military Families who are now able to redeem AAFES, NEX and MCX-specific gift cards at any Army, Air Force, Navy, or Marine Corps exchange facility. The exchanges have already redeemed over 3,000 exchange gift cards totaling more than \$82,000 that were originally purchased in one of the other exchanges. Other ongoing efforts are focused on three core cross-functional teams in the areas of Logistics, Indirect Procurement, and Enterprise Architecture (EA). The Logistics team is working on seavan sharing for Pacific operations and van stuffing. The Indirect Procurement Team is focusing on cost reductions through economies of scale. In 2007 they implemented a joint contract for PCs, servers, and laptops which achieved an average 17.6 percent savings or

\$1.37 million annually for all exchanges. Enterprise Architecture provides a conduit for developing long term joint strategies by identifying and scoping opportunities for interoperability. Establishing offices in each exchange, the EA team completed the foundation phase of the collaborative EA project and defined the collaborative supply chain taxonomy.

Exchanges continue to experience success of the jointly developed private label, Exchange Select, for a variety of consumable merchandise items such as health and beauty, automotive, and snack food. This private label provides a strong military brand identity, which allows a broader assortment for improved product selection, as well as for a favorable pricing strategy for our military customer. With annual sales of \$51 million, this joint program provides for lower cost products for military patrons, which may not have been possible without the combined purchasing power of the three exchanges in developing the private label products. It is clear we can accomplish more together than we can independently.

AAFES has built strong relationships with our MWR and resale partners outside of the exchange system. We recently launched an initiative to identify and develop partnership opportunities beneficial to both AAFES and Army MWR. In our first major project, AAFES and Army MWR-Europe are collaborating to develop a program for MWR to place orders via the internet for AAFES delivery direct to specific MWR locations. Although AAFES has provided items to MWR for some time, this new effort eliminates the need for MWR to maintain a warehouse, thus reducing a significant inventory investment and operating costs. Army MWR-Europe anticipates savings in reduced overhead and inventory investment. AAFES benefits by increasing our warehouse volume and leveraging our fixed costs.

We continue to work with DeCA on a number of successful cooperative efforts. We have long recognized the synergies realized through joint sales, but the 2007 Thanksgiving holiday advertising efforts yielded extraordinary results. Cross promotions resulted in largest ever

“Black Friday” sales for AAFES and provided DeCA with its highest single day sales—\$26.8 million—over the weekend prior to Thanksgiving. Other efforts, like using AAFES backhaul capability in Europe are driving costs out of the supply chain. We are committed to continuing these types of efforts that truly strengthen the value of the entire military resale system for our joint patron base when the initiatives make good business sense.

One key to getting back to basics in retailing is to listen to the voice of the customer. AAFES shoppers let us know how we are doing through the American Customer Satisfaction Index (ACSI) survey, an independent survey conducted annually by the University of Michigan. Since we adopted the ACSI as our corporate customer metrics in 1996, our scores have steadily improved. The 2007 results show that AAFES score of 72 out of 100 represented a 2.9 percent increase over 2006 and a 4.3 percent improvement since AAFES shoppers were initially surveyed. AAFES is gaining ground on the industry standard score of 73 and is committed to meeting and exceeding that benchmark.

The foundation of our customer-centric strategy is listening to, learning from and leveraging their collective input as well as providing the product selection in the categories of merchandise military shoppers expect. I would like to thank this committee for taking action to raise cost limits on restricted merchandise to ensure the exchange benefit is not diminished by the eroding impact of inflation. I look forward to working together to ensure there are no barriers to keep Military Families from making major purchases utilizing the low prices and the favorable credit terms that only the exchange can deliver.

Another foundation of basic retailing is ensuring we use technology to drive results and create sustainable business platforms. My predecessors have been sharing the story of Project Retek and the implementation of Oracle Retail with you during the last few years. I am pleased to report the implementation of Project Retek successfully went “live” in February 2008. The

four-year endeavor came within approximately \$1.5 million of the \$177 million budget with earnings estimated to increase by \$261.4 million by the end of 2010. The completion of Project Retek is a major accomplishment, not just because it was the largest enterprise architecture systems project in AAFES history, but because of the lasting benefits Project Retek will bring to AAFES.

The key benefit to this implementation is AAFES can centralize more processes and facilitate sound business decisions based on easy access to inventory information worldwide. Simply put, Oracle Retail is improving visibility and control over the entire supply chain. Today, the rollout of automatic replenishment is about to begin at select distribution centers and pilot main stores. Post rollout, AAFES can expect increased sales, reduced inventory, decreased operating costs, and improved gross profits as reflected in our 5 year strategic plan.

AAFES is continuously taking advantage of new emerging “green” initiatives that will reduce AAFES negative impact on the environment and strengthen the exchange benefit for our patrons. AAFES sustainability goals include reducing energy and water consumption, waste, fleet dependency on fossil fuels and increasing sustainable buildings, procurement of goods and services that use sustainable environmental practices, and efficient use of electronic products. Key sustainability programs include a utility consumption tracking program, Shoppette LED canopy lighting, main store re-lamping program, increase use of Energy Star drink vending machines, conversion to use of energy efficient walk-in coolers, pursuing Energy Star equipment with food franchises, and waste recycling. The U.S. Green Building Council has accepted 3 Shopping Center projects into their LEED retail pilot test program; Ft. Polk, LA, Randolph AFB, TX, and Ft. Belvoir, VA. These sustainability initiatives will bring long term improvements to the environment, reduce energy consumption, complement Service and installation energy goals, and ultimately protect the exchange MWR dividend from energy cost increases.

Determined not to rest on our laurels, AAFES is continually searching for ways to sustain the future. A key component of realizing AAFES' highest potential is building a bench for the future. We have renewed our focus on identifying, mentoring, and training leaders who will provide powerful leadership into the next decade and beyond. Improving their capacity to learn and grow, as well as broadening their work experience with critical jobs today, will help ensure our leaders can tackle the challenges of tomorrow.

Sustaining the future is also demonstrated by our ongoing commitment to service members to "Go Where You Go", a pledge that our team fulfills everyday in supporting deployed military operations as they execute their missions around the world. AAFES is entering its fifth year of support to forces deployed in OEF and OIF. We are recognized not only as a "market multiplier" – a value added business partner, but also a "combat multiplier" enhancing the effectiveness of America's war fighters. AAFES currently operates 82 exchanges, 207 name brand fast food operations, 528 concessions activities, and 36 unit-operated imprest fund activities throughout OIF and OEF with a forward deployed team of 430 associates, many of whom are on their second or third tours of duty. In addition to our operations in Southwest Asia, AAFES support is also in place for Europe Command's Joint Task Force East exercises in Bulgaria and Romania, and we continue to support forward deployed troops in Bosnia and Kosovo. Our support to Southern Command's Operation NEW HORIZONS is underway in Trinidad, Tobago and Suriname as our forces are involved in building a school and hospital in those areas. Within the continental United States, AAFES' fleet of tactical field exchanges remains engaged in support of mission training, exercise support, and support to populations of troops moving to reposition under the GDPR plan. This fleet of mobile exchange facilities remains ready to respond 48 hours or less to contingency events or natural disaster relief operations anywhere in CONUS.

AAFES supports the military community through our Military Family employment programs. More than 10,000 military Family Members have joined AAFES ranks, representing more than one-fifth of our entire 45,000-person workforce. To attract and retain military spouses and Family Members, AAFES offers a generous reinstatement program that ensures military Family Members who move from installation to installation are eligible to compete with current associates for in-house jobs. Recognizing those married to an active duty military member are often required to adapt to varied geographic demands, AAFES offers a Spouse Employment Preference program that provides additional preferential considerations to military spouses who apply for positions with the exchange.

Over the past year, AAFES has focused on energizing our outreach efforts to communicate the value, benefit and capabilities of the exchange. We recognize the pivotal role National Guard and Reserve troops are playing as they transition from a strategic force to an operational force. We are taking steps to reach out to these Citizen Soldiers to ensure they understand the value of their exchange benefit; on the installation, on-line and down range. In cooperation with TriCare, AAFES, is airing public service announcements through AAFES Exchange Television (EXTV) and Radio Network to convey critical health issues targeted to active duty Military, Guard, Reserves and their Families. These messages on topics such as eye health, nutrition and cancer prevention will communicate information to encourage a healthier military. The Patriot Family Connection is a group of programs that helps strengthen the relationship between deployed service members and those they love. Operation Forward is a gift giving program offering customers a way to send gifts back home to family and friends on holidays and special occasions. Collectable trading pins, e-cards and online contests create a sense of community and connection between deployed military members and those they have left back home.

To assist American citizens in expressing their support for our service members, the joint service “Help Our Troops Call Home” program allows any American to purchase a Prepaid Phone Card at www.aafes.com for delivery to deployed service members serving in OEF or OIF. The “Gifts From the Homefront” program provides a similar link on the website for the purchase of gift certificates that can be redeemed in any exchange around the world. These programs build relationships, enhance morale, and ensure Military Members appreciate and experience the support of family, friends and the American people.

Since I assumed command of AAFES last summer, I have seen first hand the importance of providing the exchange benefit to the “best customers in the world.” Each day we serve those who gallantly lay their lives on the line as America continues to fight the global war on terror and defend our country. Our courageous Family Members waiting at home puts them in a special category of American heroes willing to demonstrate self-sacrifice. In addition to active and retired forces, this benefit can be extended to include all of our military warriors including wounded or disabled, without impacting our ability to provide world-class customer service. AAFES customers are truly unique, they deserve the very best we have to offer.

I am tremendously proud of AAFES Associates who are providing the services we deliver to both kinds of heroes: Military and Family Members. The volunteer Associates currently deployed into the OEF and OIF theaters of operations are working hard alongside our America’s Joint Warriors, sharing some of the same risks, while providing a level of service unmatched in the retail industry. At home, AAFES Associates are dealing with the impact of BRAC, huge deployments, and tremendous competition in the marketplace. More importantly, they are doing all this while striving to meet the needs of Military Family Members. In some cases, our Associates are providing these critical services while their own children or spouses are deployed in harm’s way. Every story of exceptional service and support that works its way up to

my office truly warms my heart and makes me grateful that I have been given the chance to command such a fine organization.

I have addressed AAFES' success in delivering the exchange benefit and how our mission gives our team the unique opportunity to stand with one foot in the business world and with the other foot along side our armed forces. While performance metrics are important to both business and military communities, I must admit it is extremely difficult to measure the importance of what AAFES does every day. Enjoying a taste of home in a fast food activity in Afghanistan, purchasing snacks and sodas in Iraq, browsing PowerZones before turning in after a hard day in either location; these things have been described as "mini R & Rs." I can tell you it was important to me and my troops while deployed for a year to the Theater in 2006. As the AAFES Commander, I am proud to play a role in furthering the immeasurable legacy of value, service, and support to Military Members and their Families around the globe. On their behalf, I thank each of you and the entire House Armed Services Committee for your continued support.

I look forward to your questions.

**NOT FOR PUBLICATION
UNTIL RELEASED BY
THE HOUSE ARMED
SERVICES COMMITTEE**

**STATEMENT OF
TIMOTHY R. LARSEN
DIRECTOR**

**PERSONAL AND FAMILY READINESS DIVISION
MANPOWER AND RESERVE AFFAIRS DEPARTMENT
HEADQUARTERS, UNITED STATES MARINE CORPS**

**BEFORE THE
MILITARY PERSONNEL SUBCOMMITTEE
OF THE
HOUSE ARMED SERVICES COMMITTEE**

**NOT FOR PUBLICATION
UNTIL RELEASED BY
THE HOUSE ARMED
SERVICES COMMITTEE**



Major General Timothy R. Larsen Retired



Major General Larsen last served as the Deputy Commander, United States Forces, Japan.

Major General Larsen is from Denver, Colorado. After graduation from Brigham Young University, he was commissioned a second lieutenant in the United States Marine Corps through Platoon Leaders Course in 1973. Since his commissioning and completion of the The Basic School, Major General Larsen has held a variety of command and staff positions. He has commanded at every level from platoon through regiment.

In the operating forces, his command assignments include; rifle platoon, weapons platoon, Headquarters and Service Company, 3d Battalion, 7th Marines and Rifle Company, 1st Battalion, 7th Marines, 1st Marine Division (1974-1976); Weapons Company, 1st Battalion, 6th Marines, 2d Marine Division (1982-1983); 3d Battalion, 9th Marines, 3d Battalion, 4th Marines, 1st Marine Division (1994-1996); 4th Marine Regiment, 3d Marine Division (1997-1999); Assistant Division Commander, 1st Marine Division (1999-2001); and Commanding General, Coalition Joint Task Force-Kuwait (Forward) (2000-2001).

His other command assignments include the Marine Detachment, USS Saratoga, CV-60 (1976-1978); Marine Corps Recruiting Station, Phoenix, Arizona (1984-1987); Marine Corps Jungle Warfare Training Center (1997-1998); Camp Schwab, MCB Butler, Okinawa, Japan (1997-1999); and Commanding General, Marine Corps Base, Camp Smedley D. Butler, Okinawa, Japan (2001-2003).

His staff assignments include battalion adjutant, company executive officer (1974-1976); fire support coordinator (1982-1983); battalion operations officer (1983-1984); Strategic Initiatives Officer, Policy and Strategy Division, Plans and Policy Directorate (J5), United States Central Command (USCENTCOM) (1988-1991). Major General Larsen deployed to Saudi Arabia with USCENTCOM during Operations Desert Shield and Desert Storm. Other staff assignments include G3 Plans Officer, 1st Marine Division (1993-1994); and Assistant Chief of Staff for Operations (G3), 3d Marine Division (1996-1997).

He has attended several military schools to include; Marine Corps Amphibious Warfare School (1982); College of Naval Command and Staff, Newport, Rhode Island (1988); Japanese Language Course, Defense Language Institute, Monterey, California (1992); and Japanese National Institute for Defense Studies (NIDS), Tokyo, Japan (1993). Additionally, he holds an M.A. in International Relations from Salve Regina University (1988) and a M.A. in National and Strategic Studies from the Naval War College (1988).

His personal awards include: Legion of Merit, Bronze Star Medal, Defense Meritorious Service Medal, Meritorious Service Medal, Navy and Marine Corps Commendation Medal, and Navy and Marine Corps Achievement Medal.

Chairwoman Davis, Congressman McHugh, and distinguished Subcommittee Members, thank you for this opportunity to report on the posture of Marine Corps Community Services (MCCS), which includes Marine Corps Morale, Welfare, and Recreation (MWR), family programs and the Marine Corps Exchange.

Your Marines are a tough breed and in the face of great hardship they answer the Nation's call, serving always with distinction. They continue to demonstrate an amazing resiliency while deploying multiple times to dangerous lands. While your Marines are unequivocally battle hardened, their families continue to make great sacrifices and we owe it them to ensure they have the full resources required to complete the tasks ahead.

Improving quality of life for Marines and families is a top Marine Corps priority, firmly established in the Commandant's 2006 Planning Guidance. In his Guidance, the Commandant directed that single Marine and family programs fully transition to a wartime footing. Integral to this mandate is making sure these programs are appropriately resourced through baseline appropriations, but also fully supportive of our junior Marines and their families or those least experienced and in need of training and institutional support. Accordingly, important to the success of this wartime transition effort is consideration of the Marine Corps demographic. The Marine Corps has approximately the same number of active duty personnel as family members. There are 186,342 active duty Marines and 179,862 family members as reported by our Total Force Data Warehouse data as of December 2007. This 50:50 active duty to family member ratio is unique among the Services as our Sister Services ratios are all approximately 40:60. Staff Noncommissioned Officers have by far the greatest number of family members at 69,377 followed by Noncommissioned Officers with 58,106. In looking at children specifically, the largest group of children are preschool (0-5 year-olds) at 46,998, followed by school-age (6-12

year-olds) at 35,990, and thirdly by teens (13-18 year-olds) at 15,472. Of the four Services, your Marines are the youngest and most junior and, if married, have the youngest spouses.

At the end of December 2007, 74,252 Marines had deployed to Operation Enduring Freedom or Operation Iraqi Freedom (OEF/OIF) during calendar year 2007. The Marines who were deployed had 70,721 dependent family members. Fifty-three percent of Marine Corps Sergeants and below are either currently deployed or have deployed in support of OEF/OIF. The complete demographic profile demonstrates the need for our significant focus on junior Marines and their families' personal and family readiness.

Family Readiness - Taking Care of Marines and Families

Family Readiness is a component of mission readiness and a force multiplier. Over the past several years, with the help of the Congress, the Marine Corps has focused significant effort and funding on enhancement of personnel readiness through authorized end strength increases, changes to the way Marines are trained and prepared for deployment and combat, and manner of equipping the force. It is, therefore, equally important that our Family Readiness capabilities keep pace with other mission readiness areas and be modernized or receive appropriate resource investment.

Marines are responsible for their personal and family readiness. MCCA personnel and programs along with unit level Command Teams form the basis of support for Marines; and all of the families that surround a Marine including the families they were born into, sworn into and married into. This means that our family support programs must support individual Marines, their spouses, children and parents. Spouse education and accountability has heretofore been our primary program focus. While it is vital to continue and enhance this capability, we must additionally educate or train our Marines on their personal and family readiness responsibilities

but also support information and education needs of the parents of our junior Marines. The parents of Millennial Generation Marines are more greatly attached and involved in the lives of our young Marines than those of other generations of Marines. Upon deploying, many parents become responsible for children of Marines and, therefore, must be cognizant of benefits, processes, procedures and locations of services.

The Marine Corps agrees with this Committee's assessment that military family readiness programs and activities must be comprehensive, effective, and properly supported. Taking care of Marines and their families is an enduring commitment and, as an institution, we must fulfill the promises made. Fulfillment of that enduring commitment requires primary duty personnel, appropriate levels and sufficiency of services, partnerships with other service support organizations, and high quality training that keeps pace with needs of Marines and families and does not become static or stale, and therefore, irrelevant. Effective communication is critical to our success and requires attention to message content and delivery mechanisms to effectively connect or reach our intended audiences.

For the past six months, the Marine Corps has been aggressively refreshing our entire inventory of family readiness and support programs to ensure they are appropriately supportive of our junior Marines and their families, as we assist them with balancing life, career, and mission events. I am pleased to provide the Committee with an overview of the improvements, and the status of that implementation effort.

Family Readiness Programs and the Marine Corps Family Team Building Program

The Marine Corps Family Team Building and Unit Family Readiness Programs is the centerpiece of our family support capability. Each has been based on an 18-24 month deployment cycle and largely supported with a volunteer force. This was acceptable during

peacetime, perhaps, but untenable during a protracted conflict. As our deployment cycle and operational tempo increased, we now know from our internal program assessments and surveys containing responses of thousands of Marines and their families that we were overburdening our dedicated volunteers and our small MCFTB staff at installations. Consequently, we were not optimally supporting our Marine Corps family. While our compassionate volunteers performed magnificently, we must have a better division of labor that reduces volunteer service hours and appropriately assigns responsibilities within the Marine Corps. This is being accomplished by increasing civilian staffing within our programs and establishing primary duty family readiness officers at the regiment, group, battalion, and squadron levels. Additionally, we are capitalizing on technology to improve efficiency and effectiveness of our communications. Implementation and sustainment of these family readiness program improvements is supported in the Marine Corps budget. To enhance awareness of the new programs and expanded Command Team support, we launched a Family Readiness Transition Road Show (just completed), where HQMC personnel traveled to every Marine Corps Installation and conducted town halls to brief thousands of stakeholders on the new programs, policies and training materials. Through the Road Show experience, we gained valuable and positive feedback from Commanders, their Marines and family members. Time and again, they expressed their appreciation for the Commandant's and Mrs. Conway's efforts to listen and take action where necessary to enhance our family programs. Additionally, we plan to contract a professional marketing firm to assist us in optimizing both outreach and communication to our young demographic and impact of refreshing and expanding these programs.

Other enhancements include increasing MCCS and Marine Corps Family Team Building personnel at our bases and stations to provide needed support to our Command Teams. It has

been said that in today's Marine Corps, you are either training or fighting. Within family readiness, you are either training or providing family readiness support. Our Marine Corps Family Team Building staff increases are largely trainers who will help Marines and their families to achieve personal, family and unit readiness goals/requirements. As of mid-March, we had nearly reached our desired staffing levels across the installations. Beyond hiring more trainers, we have taken equal action to improve the quality and sufficiency of our training. In view of our operational environment, our family readiness training needed improvement and refreshed content. In February 2008, Marine Corps Family Team Building conducted a Training Development Working Group, which included nearly 50 participants from various family readiness impact areas (i.e., Marine Corps Family Team Building staff, MCCS training staff, Family Readiness Officers, Commanders, volunteers, and professional counselors). Thanks to this effort, in addition to the programs already provided through Marine and Family Services, we now have a refreshed catalog or inventory of over 70 training modules to support every aspect of family readiness programs. This includes exhaustive review of all newly-developed training materials to include pilot tests and eventually train-the-trainer sessions. The new programs are intended to capitalize on the use of newly procured technology. I am pleased to report that our family readiness programs will be supported with a mass communication service similar to those used in public school systems to communicate with the parents of their student population. This service will replace the manual phone tree process that Commanders previously used to pass official communications and updates on the status of their deployed unit. This manual system required thousands of service hours from dedicated volunteers. Despite the best of intentions, the old system was subject to error and miscommunication due to interpretation and repeated transmission of the message. With full implementation, Commanders will confidently send a

single message that will be simultaneously received via email, phone, or text by all identified Marine personnel or designated family members of the unit, all with little to no volunteer service required. Implementation is well underway. We are currently conducting a prototype test with the 26th Marine Expeditionary Unit at Camp Lejeune, North Carolina, a Reserve unit and will expand the test to six volunteer units in the next few weeks.

Finally, as stated previously, our volunteers have performed magnificently. They are, indeed, highly valued, but were inconsistently recognized. Going forward, we will acknowledge our family readiness and Marine Corps Family Team Building volunteers through a standardized management program to include special acknowledgement annually during the month of April, which is nationally accepted as "Volunteer Recognition Month." We will also provide recognition and incentives based on service hour milestones and lifetime achievements that will be electronically tracked by way of a web based service.

Exceptional Family Member Program

As part of our efforts to invest in Marine and Family support programs that most directly touch and help Marines and their families, we have planned and are in the process of executing significant improvements to our Exceptional Family Member Program (EFMP). The improvement initiatives center on refocusing the EFMP outcome from being largely an assignment process for the Marine to one where the outcome is continuity of care for the exceptional family member. In this capacity, assignments are but one mechanism of achieving EFM continuity of care. Additionally, we must ensure other processes or mechanisms address appropriate access and availability to medical, educational, and financial services, as well as sufficiency of EFM-specific programs for recreation, leisure and other quality of life support such as respite care, as a part of the continuum and solution set. To achieve these goals, we will

dramatically increase the number of full-time EFMP staff (civilians and contract). We are also procuring two technology aids to the program: 1) a case management system and 2) digital document senders for each EFMP office that will assist in electronic processing of enrollments. The case management system will leverage technology to facilitate effective case management services. All EFMP staff will be able to find an EFM's assigned case manager, post chronological contact notes, generate correspondence, and share information, all while assuring and respecting the confidentiality and privacy of the individual Marine and family member.

Parental stress can be expected as a factor of life, but can be heightened for families who are caring for one or more family members with special needs, and the deployment cycle of one of the parents. To focus on this specific need, under our new EFMP, we are offering 40 hours of respite care per month to EFM families at no cost. This benefit for our EFMP-enrolled families was provided during the fourth quarter of Fiscal Year 2007. A variety of care settings are available due to the broad range of needs which must be addressed. The care can be provided in three settings: A Family Child Care Home, Child Development Centers, or in the EFM's home for those who are medically fragile. We appreciate the Congress' efforts and support for this important program and family members' special needs. We particularly appreciate your efforts to address the significant needs of our family members with Autism Spectrum Disorder. Previously, to obtain appropriate care, the families had to cobble together support from medical, educational, financial, and respite care services. All special needs stem from a medical diagnosis. We seek the support of Congress to ensure appropriate services and underwriting of care where needed. We thank the Committee for their attention to this important issue, as demonstrated in the Fiscal Year 2008 National Defense Authorization Act with a provision pertaining to the education and treatment services for military dependent children with autism. Relocation and

Permanent Change of Station moves are never easy. For Marine families with special needs, the availability of medical, educational, and financial services is critical to long-term health and well being. In many cases, our families have had to endure due process legal procedures and associated expenses to appropriately receive required care. The Marine Corps, is committed to ensuring all of our nearly 7,200 exceptional family members receive the care and services needed to support their health, education, and welfare.

School Liaison Program

The education of over 51,000 school age children of Marine Corps parents is a significant quality of life issue and may ultimately impact retention. Our Marine children are as mobile as their military parents, and as they relocate from duty stations, they encounter academic and extra curricular differences that directly impact their learning and developmental achievement. To address these education challenges and issues, we are expanding our School Liaison structure from three School Liaisons across the Marine Corps to an additional 19 positions at 16 of our installations and assignment of regional and national level School Liaisons. These trained individuals will stand ready to help parents and Commanders interact with local schools, districts and State governments to help resolve education transition issues encountered by our children. This support will be especially useful to our EFMs. Working with Commanding Officers, Marines, and families, our School Liaisons will seek to optimize the educational experience of elementary, middle, and high school students.

Expanding Child Care Availability and Options

National Accreditation of our Child Development Programs provides Marine parents with assurance that their children are receiving high quality care. I am happy to report that, currently, 91 percent of the Marine Corps Child Development Centers are accredited by the National

Association for the Education of Young Children (NAEYC). The remaining programs are either pursuing reaccreditation or in the process of applying. For School Age Care (SAC), 54 percent of our SAC programs have been accredited and the remaining programs will go through the accreditation process in 2008.

The Marine Corps continues to strive to achieve the Department of Defense goal of meeting 80 percent of potential child care need and is actively working multiple strategies to increase our care capacity. We are meeting 71 percent of calculated potential need (our current unmet calculated space requirement is 1,460 spaces).

To achieve the OSD goal for 80 percent of potential need, we are advocating via OSD for acceleration of six MILCON projects (MCB Hawaii (1), Camp Lejeune (3), and Camp Pendleton (2)). We are additionally pursuing opportunities to expand access to care through partnership with other agencies or participating in pilot efforts with the Office of the Secretary of Defense (OSD) to meet the child care needs of families living off base in high cost of living areas. Additionally, we are working with a Public-Private Venture (PPV) housing partner at Mountain Warfare Training Center, Bridgeport, California to convert unoccupied housing units into Child Development spaces. This installation is located in a remote mountainous area nearly 80 miles away from a major city and has limited support services aboard the base. The Child Development Group Home opened in January 2008 and is providing care for 48 children, ages six weeks to 12 years old.

Our Marine parents who deploy or are subject to increased operational tempo and need extended child care options and the tools to help their children cope with deployment-related stress and anxiety. Through the Enhanced Extended Child Care (EECC) Program, we continue to provide child care for children of Marines whose needs extend beyond normal duty hours.

This care is provided 24/7 in emergency situations in our Family Child Care homes. To relieve deployment-related stress, we offer “Kids-N-Deployment” and “Kids-N-Reunion” age-specific workshops for children (thru age 18), which include puppet shows, games, and lessons on communication with a deployed parent. We will also soon launch L.I.N.K.S. for Teens and School-Age Children and a LifeSkills training program as part of our larger family readiness program expansion that will help parents and their children navigate deployment-related challenges but also learn more about the Marine Corps and how to succeed and flourish in the military lifestyle. Parents with dependent responsibilities will be provided L.I.N.K.S. for Parents training to help them navigate the Marine Corps entitlement and benefits processes.

Finally, as part of our mission to transition family readiness programs we will host a Children, Youth, and Teen Functionality Assessment in June 2008 to thoroughly document our existing children, youth and teen capabilities, benchmark with Sister Services and other public and private organizations for best of class examples, and develop Marine Corps-wide programs and initiatives to improve the effectiveness and efficiency of our programs.

Addressing Quality of Life Aboard Marine Corps Installations

Optimally, we would like to keep our families at their assigned bases and installations upon their Marine’s deployment. However, some families will choose to go home and we have found that these families may find their hometown friends and relatives do not fully understand or appreciate the nature of deployments and the Marine Corps way of life. In those places where there is not strong family support, we believe that if we can make it more hospitable for them to stay at bases and installations, Marines and families will benefit in the longer term by being close to the programs that help relieve stress or provide needed support.

At installations across the Marine Corps, we are making quality of life program and services

upgrades but we are also benefiting from approximately \$23M in one-time buys of equipment, such as playground equipment, youth sports equipment, and fitness center equipment. We are also investing \$29M into sustainment, renovation, maintenance and refurbishing facilities across the Marine Corps.

As part of our wholesale effort to enhance installation quality of life, we conducted an assessment of family support programs and base operations infrastructure at remote and isolated installations. To conduct this assessment, we assembled Remote and Isolated Contact Teams comprised of Headquarters, Regional and Installation personnel. Typically, local communities surrounding our remote and isolated bases have limited or less robust support services and leisure/recreation capabilities. Therefore, the Marine Corps is required to specifically enhance QOL programs and infrastructure to ensure adequate support for our Marines and families. When Marines and families perceive decreased or inadequate support services such as access and availability to high quality education for their children, employment opportunities for spouses as example, Marines and families may elect geographic separation, which has potential impact to readiness and retention efforts. To minimally correct on-base deficiencies, we are acting on the Remote and Isolated Teams' findings by investing more than \$35M in FY08 to make identified program improvements and execute facility modernization or refurbishment initiatives. All installation support enhancements, including remote and isolated, have been supported in Fiscal Year 2008 through a Global War on Terror supplemental amendment. Baseline sustainment will be pursued through Marine Corps programming processes. These initiatives and others will further promote the sense of community required to form strong bonds among our Marine families that contribute so greatly to readiness.

Expanding Communication Connections Between Separated Marines and their Families

For Marines and families assigned to locations like Okinawa and Iwakuni Japan, communication is the number one quality of life priority. Maintaining strong families and improving the quality of their communication helps both the Marine and family better cope with deployments and improve morale. To foster this improved connection and coping mechanism, the Marine Corps will be establishing Wi-Fi wireless technology aboard all Marine Corps installations and at 500 MCCS facilities.

Spouse Employment

We realize that Military spouses are a major contributor to the financial stability of military families and we strive to help our spouses establish and maintain productive careers. Our Family Member Employment Assistance Program provides workshops and services on the labor market, salary trends, career counseling, resume writing, job interview techniques, and job searches. Additionally, we are partnering with government and private sector organizations to secure opportunity for mobile careers and employment training, such as: a medical transcription apprentice program, jobs in the mortgage industry, and H&R block on tax preparation. The Marine Corps also participates in the Department of Defense-Department of Labor Military Spouse Career Advancement Accounts (CAAs) demonstration project to help spouses obtain the education and training they need for portable careers (financial services, education, healthcare, IT, and construction).

With these family readiness and support program improvements underway, we confirm our enduring commitment to take care of our own and look after our Marine families – the most brittle part of the deployment equation.

Marine Corps Exchange (MCX) Operations

Since 2006, our Marine Corps Exchanges have been focused on achievement of a customer service vision. Our MCX vision contains four components: 1) create a great shopping experience curb to register; 2) be the first place our customers think of to shop and confident in our assortments; 3) be clear in our customer value story; and 4) remain emotionally connected to the Marine Corps customer. Our logo of "MCX Core Brands, Corps Value" links the Exchange to the pride of the Marine Corps and is essentially, our commitment to our customers to provide brands and value each time they shop the MCX.

Customer impact begins at the MCX curb and carries throughout the entire shopping experience – at each customer touch point including wide and well-lighted aisles for easy maneuvering and shopping, and plan-o-grammed product assortments (i.e., a consistent schematic for product placement developed on the rate of sale).

To bring our MCX facilities up to standards, we developed a retail master plan. Under the plan; old, tired stores will become something of the past. Eventually, each MCX will not only be rebuilt, remodeled or renovated, but a complete "re-concept" tied to the MCX vision will be completed. This retail master plan includes design and merchandising standards to attain standards of excellence in convenience, efficiency and overall customer appeal.

Store Improvements

I am pleased to report that we had three grand re-opening celebrations in the fourth quarter of 2007 to bring the total count of MCX locations "On Brand" to four.

MCX Miramar's Grand Opening was October 19, 2007, with a project cost of \$16.0M, the MCX gained 36,000 square feet of selling space. Sales performance is a true indicator of our customers' satisfaction with these renovated stores. An increase of 28.9 percent in sales was realized as compared to same period last year.

Cherry Point's Ribbon Cutting ceremony was November 8, 2007. An additional 7,000 square feet of selling space was achieved with a project cost of \$8.3M. Same period sales increased by 28.5 percent.

Quantico's Grand Opening celebration was November 15, 2007. A sales increase of 15.9 percent was realized with an additional 17,000 square feet. The cost of this project was \$15.8M.

We are on track for two grand opening celebrations scheduled for 2008; MCX New River and MCX Parris Island. I look forward to reporting the success of these "On Brand" stores next year.

Tactical Field Exchanges

For OIF, the Marine Corps partners with the Army and Air Force Exchange Service (AAFES) to provide Tactical Field Exchange (TFE) services. Our Marines in Iraq have access to a variety of items, from health and comfort, to movies, CD's, and snack foods. Many of our MCCS Marines are serving their third and fourth tours in support of the TFE operations. Additionally, MCCS has an average of 25 Marine Corps Exchange civilian volunteers serving the TFEs in Iraq. We applaud these individuals for their service and dedication to ensuring deployed Marines receive "touches of home" while they are so far away. In Fiscal Year 2007, the TFEs generated \$120M in sales.

Price Survey

The Marine Corps Price Survey, as a Cooperative Effort with AAFES and NEXCOM, was conducted 22-29 October 2007 in three market locations (Arlington, Virginia; San Diego, California; and Honolulu, Hawaii). Since the Price Survey is used as a standard performance metric for all three Service Exchanges, it is important that Exchange survey methodologies be closely aligned. Therefore, MCX markets were selected to better parallel with AAFES and

NEXCOM market locations. A product list consisting of 339 line items representing 33 merchandise categories was used to accumulate pricing data across the specified market locations. Merchandise categories were used that are important to our customers such as health and beauty, electronics and apparel. I am pleased to report that in the aggregate, our 2007 MCX savings is 22 percent before taxes. This represents a savings increase of approximately six percent over last year. To optimize savings for the items Marines and their families most desire, we focus on significant customer touch points ensuring high velocity items Marines buy, such as Gillette razors and beef jerky, are competitively priced.

Customer Satisfaction

In September 2007, MCXs across the Marine Corps participated in a Customer Satisfaction Index (CSI) Survey. The survey measures satisfaction levels at regular intervals, thereby allowing us to identify areas requiring attention and provide recommendations for program improvement. MCX customers rated their overall satisfaction score higher than they did in 2006, with the score increasing by one point from a 71 to a 72. Key customer findings showed that pricing, merchandise selection, and the influence of our associates remain strengths for our organization and continue to be key drivers of satisfaction. Additionally, one-stop shopping has made a significant shift from being a top priority to becoming one of our strengths; customers have become increasingly satisfied over the last three years with "having all the merchandise and services they need in one convenient location." Merchandise Selection has also shifted from being a top priority to becoming an MCX strength. Customers are becoming more satisfied with the assortment of merchandise, but this is still a top area of focus for the MCX leadership. We strive to have the preferred brands of our customers as well as continue to be "expeditionary" in business. MCX has been first to the military market with brands that have been a huge success

with our customers. Additionally, our American Customer Satisfaction Index (ACSI) results continue to show promise. Following, a significant three point improvement in 2006, the MCX improved again in 2007 by two points -- resulting in an impressive five-point gain over two years raising our current ACSI score to 72.

Armed Services Exchange Regulations

Chairwoman Davis and Representative McHugh, on behalf of all MCX patrons, I thank you for your recent letter to Secretary Dominquez in support of lifting certain Armed Services Exchange Regulations (ASER) restrictions on the sale of televisions, furniture, and jewelry. However, we continue to maintain that enhancing the shopping experience and ensuring customer satisfaction, includes not only offering our patrons the brands they want, but also the best possible merchandise selections. The current cost limitations handicap our efforts to meet the changing consumer expectations of a new generation of Service members and their families. Under the restrictions, our patrons continue to be forced to shop outside the gate for restricted items, exposing them to higher prices and unfavorable credit terms. Especially in today's climate, where we are looking for means to protect the financial interests of our most vulnerable Service members and advocating for a lifting of the remaining restrictions at the earliest possible date.

Exchange Cooperative Efforts Board

We consistently look to develop methods and practices to improve the efficiency and effectiveness of our Exchange System. The Exchange Cooperative Efforts Board (ECEB) plays a large role in this capacity as we work with Sister Service Exchanges to leverage best practices for the benefit of Marines and Marine families. In 2007, the ECEB focused on the areas of Enterprise Architecture, Logistics, Indirect Procurement, and cross-acceptance of Gift Cards for

improved operational efficiency and customer satisfaction. As the ECEB Chairmanship has rotated to the Marine Corps this year; I pledge that we will continue to work collaboratively with our Sister Services to continue the work and progress made in 2007 and to identify new opportunities in 2008.

In a recent ECEB meeting, the Board Members agreed to charge our respective organizations with a mission of moving beyond bureaucratic logjams and to aggressively identifying and implementing initiatives that increase efficiencies and/or services to our customers. In a recent meeting with DeCA leadership we realized that, although our resale systems need to remain separate to ensure the overall benefit is maintained, there are opportunities for the Exchanges and Commissaries to work closer together and in harmony to better serve the customer. Coordinating our Exchange sales with DeCA case lot sales is one example. We are also looking to better educate Service members on their resale benefit through utilization of Military OneSource and Military HOMEFRONT information services, and in the process we help spread the word to Service members on these valuable information and referral resources.

MCX Sales and Profits

In Fiscal Year 2007, our Exchange sales are estimated to be \$806M, an increase of 4.2 percent over the prior year. During this period, we had three stores under renovation. Considering the renovations, impact of deployments, and the performance of outside retailers in 2007, we are very pleased with our results. Our estimated MCX profits for Fiscal Year 2007 are \$53.5M, an increase of 18.9 percent over last year. Our Exchange dividend for FY07 is estimated at \$35M.

Morale, Welfare, and Recreation Facilities Modernization

The MCCS nonappropriated fund (NAF) MWR construction program continues on a stable path. Our patrons should have nothing less than high-quality MWR facilities and our sound program reflects a philosophy of continual assessment and response.

In Fiscal Year 2007, we completed:

- Marine Corps Base Camp Pendleton, California, renovate Staff NCO Club (\$2.2M);
- Marine Corps Base Quantico, Virginia, renovate Marine Corps Exchange (MCX) (\$18.4M);
- Marine Corps Air Station Cherry Point, North Carolina, renovate MCX (\$8.3M);
- Marine Corps Air Station Miramar, California, construct MCX addition and renovation (\$16.0M)

In Fiscal Year 2007, we began:

- Marine Corps Air Station Miramar, California, replace Golf Course Club House and SNCO Club (\$7.1M);
- Marine Corps Air Station Miramar, California, construct RV Storage Lot (\$3.9M);
- Marine Corps Recruit Depot Parris Island, South Carolina, replace MCX (\$15.5M);
- Marine Corps Base Quantico, Virginia, construct addition to Marine Corps Community Services Headquarters (\$6.8M);
- Marine Corps Air Station Iwakuni, Japan, construct a Bowling Center (\$9.7M)

In Fiscal Year 2008, we plan the following:

- Marine Corps Base Quantico, Virginia, construct Package Store (\$3.6M);
- Marine Corps Logistics Base Albany, Georgia, renovate MCX (\$3.4M), renovate Bowling Center (\$0.4M), and renovate Base Restaurant (\$0.4M);

- Marine Corps Air Ground Combat Center Twentynine Palms, California; construct Auto Skills Center addition (\$2.4M), and renovate Marine Mart and Gas Station (\$5.2M);
- Marine Corps Logistics Base Barstow, California, construct Marine Mart at (\$0.7M);
- Marine Corps Base Camp Pendleton, California, construct Car Wash expansion (\$1.3M) and renovate two location Exchanges and Gas Stations (\$0.6M each)
- Marine Corps Air Station Cherry Point, North Carolina, renovate Marine Mart (\$1.2M);
- Marine Corps Base Camp Lejeune North Carolina, renovate Bowling Center (\$0.7M);
- Marine Corps Recruit Depot Parris Island, South Carolina, renovate Furniture Store (\$1.7M), construct a Youth Center (\$4.2M), and construct RV Park (\$0.5M);
- Marine Corps Air Station Yuma, Arizona, construct MCX (\$17.5M);
- Marine Corps Air Station New River, North Carolina, replace Auto Hobby Shop (\$2.3M);
- Marine Corps Base Hawaii, renovate Youth Center (\$12.7M), expand Temporary Lodging Facility (\$7.5M), and renovate Golf Clubhouse (\$2.6M).

Over the next several years, the focus of the NAF Construction Program will be placed on renovation and or replacement of our Exchanges. By improving the shopping experience, we hope to attract more customers and thereby increase sales.

Fiscal Year 2007 Financial Results

Our appropriated fund (APF) financials continued to support the OSD MWR 85/65 standards for Categories A and B, respectively. For Fiscal Year 2007, the Marine Corps achieved APF support of 86 percent for Category A and 73 percent for Category B. MWR APF direct support increased by \$15 million over Fiscal Year 2006. Overall, the Marine Corps executed \$40M more MWR funding in Fiscal Year 2007 than originally budgeted. This was due to additional contingency operations funds, enhanced emergency child development support, and

execution decisions by Installation Commanders. For Fiscal Year 2008, the Commandant directed increased programs funding "To improve the quality of life for our Marines and their families." Support for these programs in Fiscal Year 2008 has already been provided through GWOT Supplemental funding, and the intent is to do the same in Fiscal Year 2009.

Closing

In closing, the past year has been a significant period of change for the Marine Corps Community Services. We have heard the voices and requests for support from leaders at all levels, and from Marines and their families. It is our intent to maximize our internal capabilities and leverage or establish additional partnership opportunities from public, private, and Sister Services' organizations to enhance the care and service of our Marines and their families. At all levels, Headquarters, Regional, and Installations, we seek to raise the bar and make a dramatic difference in the state of Marine Corps quality of life. On behalf of the Marine Corps and Marine families, I thank the Committee for your continued attention to the well-being of American's Service members and their families. Your advocacy is most sincerely appreciated and relied on for the future.

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**STATEMENT OF
RICHARD S. PAGE
ACTING DIRECTOR, DEFENSE COMMISSARY AGENCY
BEFORE THE
MILITARY PERSONNEL SUBCOMMITTEE
OF THE
COMMITTEE ON ARMED SERVICES
UNITED STATES HOUSE OF REPRESENTATIVES**

SECOND SESSION, 110th CONGRESS

April 17, 2008

**NOT FOR PUBLICATION UNTIL RELEASED BY
THE HOUSE ARMED SERVICES COMMITTEE**

Mr. Chairman and Members of the subcommittee, it is my pleasure to appear before you to provide the update of the Defense Commissary Agency's (DeCA) performance this past year. The commissary benefit continues to remain strong, providing exceptional savings and service for the men and women who proudly serve our great Nation! The improved processes put in place over the past several years allow us to increase the value of the benefit while keeping costs constant. The 18,000 employees who operate the commissary system and do such a great job running our 259 stores worldwide continue to be a source of personal pride as they efficiently and effectively provide one of the Department's most desired benefits. Our employees have readily accepted our newest challenge to deliver the commissary benefit to those Guard and Reserve personnel not located in close proximity to one of DeCA's commissaries. Those Guard and Reserve families, who have been asked to sacrifice so much for this Nation, truly deserve our efforts to provide the commissary benefit through on-site sales—taking the benefit to them!

We had another impressive year in 2007 and once again our numbers say it all—sales continue to grow; the cost of delivering the commissary benefit, both in actual and in constant fiscal year 2000 dollars, came in under budget; customer service and patron savings levels remain steady. Our patrons continue to express their appreciation for the commissary benefit with their wallets. Our annual sales totaled \$5.54 billion in 2007, a 2.2 percent increase over 2006; and thus far in 2008 we're already up over \$100 million more than for this same time period in 2007. Increased sales numbers are important not from a bottom line profit perspective, but, as a measurement of merit of how well DeCA is doing in providing the commissary benefit. At the same time our costs again came in under program as we continue to find more efficient ways to increase the value of the commissary benefit to our patrons. The value they hold the commissary benefit in was again confirmed by our patrons who rated their overall customer

service satisfaction a 4.60, on a scale of 5, which is the practical limit of perfection. Our patrons continue to believe we are doing it right! Again this year our internal measures were validated externally by the American Customer Satisfaction Index (ACSI). DeCA's FY 2007 score, for the third year, remains at 77, and continues to be higher than the ACSI commercial supermarket industry average of 76, again behind only a single supermarket chain. Customers reported to ACSI that DeCA's strengths are: perceived quality, perceived value, low customer complaints, and customer loyalty.

However, customer savings continue to be the heart of the commissary benefit. It is this level of savings and the fact that we deliver commissary items at the same price to all locations, including remote locations and overseas, that make the commissary one of the most highly prized benefits provided military families. The savings of 31.9 percent amounts to \$3,000.00 per year that an average family of four could save by purchasing their grocery items at their commissary. Of course, attaining this level of savings would not be possible without the tremendous support our extended team of trading partners—manufacturers, distributors and brokers—provide in the pricing and promotion of products. I would like to take this opportunity on behalf of DeCA and commissary patrons everywhere to publicly acknowledge and thank all of them for their support of the commissary benefit.

DeCA continues to demonstrate the governance attributes of a successful governmental entity. Of significance again this year is DeCA's Internal Control program. For the last two years, DeCA received the DoD "Check It Award of Excellence", for receiving one of the top scores in the Department for its Statement of Assurance. This is an acknowledgment that DeCA's internal controls and its systems for testing their effectiveness are some of the best in the business. In 2006, DeCA was the sole recipient of the award. For 2007, two other DoD entities

were honored with this prestigious award along with DeCA. In addition, in fiscal year 2007, independent auditors gave DeCA its sixth consecutive “unqualified opinion.” In business, an unqualified opinion says that an organization’s financial statements accurately represent the firm’s financial standing as measured by the accepted accounting principles in the United States. The unqualified opinion puts DeCA in a select group with only three other DoD agencies that have received six consecutive unqualified or “clean” opinions.

We continue to use Lean Six Sigma to refine business processes and to instill an ongoing culture change which is in alignment with the DoD-wide Continuous Process Improvement (CPI) Initiative and our Strategic Plan. The Agency is continuing to focus on CPI to streamline our processes, reduce redundancies, and eliminate unnecessary steps. The projects that have been identified for streamlining processes are in various stages and are already delivering more effective and efficient support to our stores. More importantly, however, is that the resulting process improvements have compensated for “salami slice” manpower reductions previously taken and mission increases.

The driving factor behind DeCA’s continuum in reengineering is the need to position the Agency and its workforce to successfully meet future challenges including: 1) base realignment and closure actions, 2) A-76 competitive sourcing, 3) Global Defense Posture Realignment (GDPR), 4) technological advances, and 5) changes in the market place. We must ensure an effective above-store structure, focused on delivering services and products that best support the stores so that we can continue to provide an efficient commissary benefit.

Ever mindful that commissaries solidify the nation’s commitment to its military by providing a non-pay compensation benefit for active duty military personnel, guard, reserves, retirees and their family members, our Strategic Plan continues to be the “living document” that

ensures the commissary remains relevant, responsive, and recognized as an important quality-of-life benefit by our patrons and stakeholders. Two key initiatives developed in this plan are expanded Guard and Reserve support and increased support for military families and wounded warriors. Of course, as we continue planning and implementation, our strategic focus continues to be to provide the best possible benefit while controlling cost to the taxpayer. This means we need to become more innovative in process improvements and take advantage of technological advances. We need to envision what the retail food industry will look like in the future and make good judgments on what we must do to be a leader in this emerging marketplace. We assess our progress and performance through an integrated forum with a corporate focus on the effectiveness and execution of the Agency's strategies, initiatives, and programs to review progress and performance results at all levels. It serves as the executive assessment of the "Health of the Agency" and is a checkpoint to see if we are "on the right track and doing the right things" in providing the commissary benefit to our customers efficiently. This process allows executive and senior leadership to make better informed decisions and course adjustments that may be necessary to refocus the Agency.

For 2008 DeCA has four strategic initiatives: Focusing on people; supporting the Guard and Reserve; going "greener"; and increasing cooperation with the Exchanges.

Focusing on People: One of DeCA's strategic goals is to transform the workforce to become more agile, knowledgeable and motivated so they may provide exceptional customer service. In fact, workforce development includes the largest investment in training at store level in the Agency's history. We recognize that to be successful, the Agency must focus on a comprehensive plan that allows us to attract, develop and retain high performing employees by expanding our talent pool. We are particularly interested in attracting individuals who have an

investment in the Military Services and the commissary, such as wounded warriors and military family members. As part of our effort to give back to the community and the patron base we serve, we are hoping to hire 50 wounded warriors within the next few months. Further, while 38 percent of our workforce is currently composed of military family members we would like to see that number continue to expand. We believe this investment is not only beneficial as mere employment opportunities for those individuals, but also provide a significant improvement in the delivery of the commissary benefit. These individuals not only understand the sacrifices our patrons have made, they have a personal stake in improving the success of the commissary benefit.

To that end we have established a recruitment cell designed to centralize recruitment worldwide. Recruitment efforts will target a variety of sources such as military spouses, wounded warriors and disabled veterans, students, and U.S. citizens who possess retail experience. At store level, the recruitment cell focuses on the large student population, many of whom are military spouses and family members, currently employed by DeCA. The goal is to utilize the Student Education Employment Program as a vehicle to develop our future leaders. We currently have over 2000 students in our stores and our plan is to convert a number of high potential and interested students to the Student Career Experience Program and, ultimately, employ them as management interns in the stores. As students graduate and are hired as management interns, new students will be hired to replace them. A constant flow of students addresses the aging workforce challenge, allows us to attract the right people for the right job, and reduces vacancy fill time. At above-store level, where many more technical disciplines are involved, the recruitment is focused on the needs of each process owner.

Supporting the Guard and Reserve: Our Guard and Reserve efforts are two fold—outreach or education aimed at enabling members and their families to “Discover Your Benefit” and expanding their access, allowing them to take advantage of their commissary benefit.

The “Discover Your Benefit” campaign emphasizes learning about *all* that DeCA offers and the materials provided are designed to reinforce the classic messages about the benefit, such as savings and Quality of Life, while introducing newer messages, such as nutrition, health and wellness. Our outreach efforts included providing exhibits at Guard and Reserve conferences; mass mailing of coupon booklets directly to Guard and Reserve units; promotion of the commissary benefit through numerous Guard and Reserve magazines; and meeting with Guard and Reserve commanders. We have met with the senior Guard and Reserve leaders seeking their guidance on how best to improve communications. In all of these meetings, DeCA received an enthusiastic reception for our efforts and commitments to support our expanded communications plan.

Expanding access is our effort to provide services to Reserve and Guard units that are not located at an installation where there is a commissary. The initial effort comprises on-site sales at Guard and Reserve centers. In 2007, on-site sales were held at 21 Guard and Reserve locations, providing approximately \$1.6 million worth of commissary products, at savings of more than 30 percent, to Guard and Reserve families. DeCA has met with Reserve and Guard leadership to further identify other locations for on-site sales that will maximize delivery of the benefit to geographically dispersed members. Our schedule shows we have already surpassed the goal to conduct 100 of these sales in 2008. By 2010, we expect that number to expand to over 400 on-site sales, as we implement a recurring sales program at these on-site locations affording these deserving personnel access to their commissary benefit. We are also planning to support Guard

and Reserve families by hiring family members to assist at the on-site sales, providing them an opportunity to earn additional family income. Unexpectedly, our efforts have not been as successful as we had hoped as many family members continue to inform us they would rather shop than work! We are working out the details so they can do both.

While on-site sales certainly provide access to the commissary benefit, we are also actively working system changes to the Virtual Commissary, our Internet sales outlet, to support Guard/Reserve location sales. Much like any purchase made over the Internet, this web-based enhancement will allow authorized patrons to select from an assortment of products offered in support of the location sale, pay for those products using a credit or debit card and accept delivery at the Guard/Reserve location. It is hoped these pre-paid Internet sales will allow DeCA to increase the support to the Guard and Reserve while reducing the resources required to conduct on-site sales.

Our trading partners are enthusiastically supporting these Guard and Reserve events, but have also taken the demonstration of their support to a new level. For example, over the 2007 holiday season, a number of our suppliers, recognizing the additional sacrifices that Guard members have encountered, donated \$95,000 in \$100-Certifichecks for Guard members to spend in commissaries. Keep in mind that the 30 percent commissary savings means that this \$95,000 donation is actually worth more than \$120,000 to Guard families. The checks were made available through an effort spearheaded by the American Logistics Association, a trade group representing military trading partners who support commissaries, and distributed by the National Guard Bureau to the units across America whose members were deemed most in need.

Going Greener: The Defense Commissary Agency established an Environmental Management System in December 2005, which continually evaluates important Agency

environmental aspects impacting business practices. Again our efforts are on two fronts—those that effect our operations and those that affect our customers. We have learned that being environmentally friendly not only helps conserve resources but can be monetarily rewarding for a business as well. For example, the energy efficient lighting and refrigeration features we include in new and renovated stores have enabled us to reduce energy usage sufficiently to control our overall energy costs at a time when energy prices continue to soar. In FY 2007, we adopted a program to reduce the Agency's solid waste and at the same time produce revenue. Called "Trash for Cash" this program recycles the considerable amount of cardboard and plastic wrap DeCA receives each day with the delivery of product from its suppliers. In 2007, this recycling effort netted \$3.7 million which went into the surcharge coffers. We expect that figure to approach \$5 million in 2008.

In 2008, we launched our customer environmental awareness campaign – promoting specific products that are environmentally safe. Our environmental product focus built on our successful sale of organics which we first introduced as part of the health and wellness program. Over the past few years DeCA commissaries more than tripled the number of organic products available on their shelves. With the growing customer acceptance of organics in commissaries, we ventured into other areas. With Americans becoming more environmentally conscious, and following a European model, we introduced reusable cloth grocery bags strong enough to hold 30 pounds of groceries. These 70 cent bags have proven to be phenomenally popular with commissary customers and we have sold over 600,000 of them since their introduction at the end of October 2007. The growing use of the reusable bag by commissary patrons will not only reduce the number of plastic and paper bags disposed of in landfills, but DeCA's operating costs as well as we reduce our requirements for disposable bags. In fiscal year 2007, commissaries

spent more than \$20M on plastic and paper bags. If one-tenth of commissary shoppers switched from paper and plastic to reusable cloth bags, the agency would save more than \$2 million annually—money that could be used for other programs to increase the value of the commissary benefit without increasing its cost.

Increase Cooperation with the Exchanges: DeCA and the exchanges have entered a new era where we actively seek to cooperate and de-conflict our programs whenever the opportunity arises. A prime example of cooperation that strengthens the entire military resale community occurred last holiday season. DeCA and AAFES assisted each other in getting the word out on specials the other was offering. An AAFES employee handed out AAFES flyers in the commissary featuring their after Thanksgiving sales and a DeCA employee handed out flyers in AAFES featuring holiday promotional items and pre-Thanksgiving Day operating hours in commissaries. This simple bi-lateral advertising initiative provided great benefits for DeCA, AAFES and our patrons. AAFES reports having the best “Black Friday” ever in terms of sales, while DeCA had the highest single day sales to date, over \$11 million, for the Saturday before Thanksgiving.

DeCA and the Exchanges are also teaming on promotions and parking lot sales and many successful events with AAFES, NEXCOM and the Marine Corps Exchange have already been held. Too often in the past our promotional events have conflicted when both promoted similar items. By sharing our promotional calendars and upcoming major sales events we are able to develop complementary sales programs that benefit both the military resale system and our customers. For example, a DeCA beef promotion may be complemented by an exchange promotion on grills. The Exchanges have already expressed great interest and plan to join DeCA at many of the on-site sales planned at Guard and Reserve locations.

A number of DeCA programs continue to provide value to our patrons and should be mentioned.

Food Safety: The American food supply continues to be among the safest in the world and Service members and their families who purchase goods at the commissary can be assured they have a safe food supply chain. In fact, DeCA has one of the best food safety programs of any retailer in America. First, we only buy products from DoD approved sources. DeCA monitors the established recall system of the Federal Government, www.recalls.gov, 24-7 so it can rapidly respond and notify patrons through our website and notices posted in our stores almost immediately after a product recall is announced. The next line of defense forms at the commissary. U.S. Army Veterinary Command or U.S. Air Force Public Health personnel perform scheduled sanitary evaluations of DeCA facilities to ensure that they comply with the model Food Code administered by the Federal Food and Drug Administration. These inspections begin when the food arrives at the commissary or central distribution center and continue until it is purchased by the customer. The responsibility to inspect products on the shelves is reinforced by store sanitation coordinators who manage all food safety efforts within their particular commissaries. They work with the military food inspector, vendors, and store workers to ensure all food is received, stored, and displayed safely. In most cases, medical food inspectors from the U.S. Army Veterinary Command and U.S. Air Force Public Health maintain an office right on the receiving floor of commissaries and distribution centers.

As an additional safeguard, we also have recently developed a program which allows us to centrally lock out products to prevent their sale when the entire UPC is recalled. If recalled product happens to slip through and not be pulled from our shelves, when the product is scanned

as the customer checks out, our cash register system will not process its sale and notify the customer and our cashier that the product has been recalled.

To bring added awareness to our patrons, DeCA has joined with the U.S. Department of Agriculture, the Partnership for Food Safety Education, and its industry partners to bring the food safety message to the customer. We have designated April as Food Safety Month and will be making a concentrated effort to increase food safety awareness in the military communities DeCA serves. Our patrons will find food safety messages posted throughout our stores, with proper cooking tips. In many stores, Army Veterinary and Air Force Public Health officials will also be on hand to provide food safety advice.

Nutrition, Health and Wellness: One of our largest campaigns in recent years has been “It’s Your Choice, Make It Healthy”, providing information to customers in an effort to help increase awareness and provide dietary guidance. In the process of becoming the nutritional leader for the military and their families, DeCA is using this program and working with DoD to address health and wellness issues. DoD has identified a need to address the issue of overweight personnel in the military. According to the Dietary Guidelines for Americans, developed by the Department of Health and Human Services and the U. S. Department of Agriculture, 24% of all military personnel are classified as overweight. There is an increased risk associated with overweight and chronic diseases such as diabetes, hypertension, and heart disease—all of which are leading killers in the United States.

A significant part of the It’s Your Choice Make It Healthy program is the new and improved www.commissaries.com website. On the website the DeCA Dietitian has an interactive forum where patrons can post questions and get a response. Questions frequently posed concern diabetes and weight management. More and more shoppers are asking for

guidance on how to lose weight and maintain weight loss. Reserve and National Guard customers are also being referred to DeCA for advice and assistance in weight management through a link on the Army Weigh to Stay Program. Conducted on-line, the Army Weigh to Stay Program regularly promotes the dietitian section on the DeCA website to its more than 500 program participants.

Other tools used to reach customers include the health and wellness promotions conducted on military installations worldwide:

- Health & Wellness Promotion Events held at the installation level where free samples of a variety of fruits and vegetables are offered along with educational information on the benefits of eating them and fitness contests held by the installation fitness centers personal trainers.
- Over 80 health screenings, providing blood pressure checks, body mass screenings and health education to customers have been held in DeCA's stores.
- The formation of a Health and Wellness Promotion Group, which consists of 23 military and civilian dietitians throughout the world, that work with commissaries conducting health and wellness events.
- During National Nutrition Month, this past March, commissaries worldwide kicked off the "Walk into Wellness" Campaign. Installation health promotion staff and our produce partners promoted walking towards good health in the commissary. This campaign is to promote walking for 30 to 60 minutes or 10,000 steps a day as recommended by the 2005 U.S. Dietary Guidelines and health experts.
- A partnership which provides healthy eating and living information to students in DoD Dependent Schools.

- Promoting Military OneSource's 'Healthy Habits Coaching' program by displaying banners in commissaries. OneSource offers considerable health resources including health calculators, health library, weight loss toolkit and information on fitness and nutrition, finding health resources, managing stress, healthy recipes, and children's exercise and fitness.

Giving Back to the Community: Since the program started in 2003, the industry that supports commissaries and the general public have provided nearly \$14 million to military families under the Gift to Groceries Program. In addition, to providing donations directly to service members, or through one of charities—Operation Homefront, USO, Air Force Aid Society, Fisher House Foundation, and Operation Interdependence—who distribute them to military families, commissary Certifichcks have been a popular industry funded tool for use as give-aways at grand openings and other outreach events. A Certifichck is even included in each backpack provided wounded warriors when they visit the Pentagon as part of the Army's Wounded Warrior Program.

The Scholarships for Military Children Program remains a cornerstone of the commissary's involvement with local military communities. Since its inception in 2001, the program has awarded more than \$5.5 million in scholarships to 3,532 children of military families. Funded by industry and individual donations and administered without cost by the Fisher House Foundation, the goal of the program is to award a minimum of one \$1,500 scholarship at each commissary location that receives applications from students. The educational achievements a few of the military children who received a scholarship in 2001 and 2002 illustrate the value this program provides:

Eleanor Carr, 2002 scholarship recipient, earned a bachelors degree in international peace and conflict resolution with a minor in Spanish, American University; currently a first year law student focusing on international law, Columbia University; earned full grant to do human rights work abroad, summer 2008.

Mark Thomas, 2002 scholarship recipient, earned a bachelors degree in theology, music and philosophy (3.96 GPA, Phi Beta Kappa), University of Notre Dame; currently a Senator Jacob K. Javits Fellow at Boston College, Mass., working on a doctorate of philosophy in religion.

Kendy Hornack, 2002 scholarship recipient, earned a bachelors degree in international business and finance (summa cum laude, USF honors graduate), University of South Florida; currently a Fulbright scholar studying European central bank policy and the euro's effect on the German economy.

Produce Procurement Completed: The change in our produce procurement methodology mentioned last year is now fully implemented and provides the superb quality and amazing savings we had sought. Our produce savings now average 40.2 percent compared to 31.7 percent in 2006, the last year before we had embarked in this produce transformation. While overall retail grocery sales have been flat, our produce sales increased 6.44 percent in fiscal year 2007 and have been even more vibrant in the first five months of fiscal year 2008 increasing an additional 8.27 percent over 2007's record breaking year. Because of the improved quality and improved merchandising support that meets or beats that available from commercial retailers, the produce department now leads all other commissary departments in the percent of sales increase. Where commissary patrons previously purchased their produce elsewhere, they are now returning to the commissary for their produce needs. We not only find commissary

patrons coming back to the store more often, in lieu of doing their fill in shopping off installation, but the improved produce quality is also responsible for building complementary sales across store.

Since last years update, the anticipated drain on the surcharge fund because of BRAC and Global Defense Posture Realignment (GDPR) actions is nearing resolution as the Department seeks BRAC funding for those commissary projects required to implement BRAC and military construction (MILCON) dollars for the projects necessary due to restationing initiatives. While rising construction costs—an increase of 44 percent per square foot since 2003—still challenges the surcharge account, this departmental decision has eased the stress on the surcharge program immensely.

As you may recall, DeCA had anticipated completing its deployment of our Workforce of the Future by December 31, 2008. Unfortunately we will be unable to meet that time schedule. Our Workforce of the Future model depended upon the ability to restructure the workforce by transitioning employees from the limited set of duties set forth under the General Schedule, such as a cashier, to more flexible duties such as those accomplished by a store worker in a civilian supermarket. This required that we use the reduction-in-force tool to properly restructure the positions. However, recent revisions to NSPS no longer allow us to use the automated reduction-in-force tool and would force us into a manual process. This manual process is very time consuming and labor intensive; and, with the consolidation of our personnel service center with that of the Defense Logistics Agency under BRAC 2005, to attempt this transition makes our change to the workforce of the future virtually impossible. Consequently, we will complete the necessary transition by filling vacancies that result from attrition with workforce of the future positions as they become available.

In closing, the administration and operation of the commissary benefit has never been stronger. We recognize that commissaries deliver a highly valued component of military compensation and they bring a morale-building “taste of home” feeling by providing familiar American food products in overseas locations where such products are often unavailable. The employees of DeCA are proud to serve the most deserving customers in the world and we are particularly privileged to be entrusted with helping care for the welfare of the families of those who are serving in harms way!

It has been my pleasure to have the opportunity to tell you about the great things DeCA has accomplished this past year and of its contribution to the quality of life of our military families. I will be happy to answer any questions you may have.

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RELEASED BY THE
HOUSE ARMED SERVICES COMMITTEE

STATEMENT OF
MR. JOHN BAKER
BEFORE THE
HOUSE ARMED SERVICES COMMITTEE
SUBCOMMITTEE
ON
MILITARY PERSONNEL
APRIL 17, 2008

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HOUSE ARMED SERVICES COMMITTEE

Opening Remarks

Mr. Chairman and Military Personnel Subcommittee members, it is a pleasure to report to you on the many significant advances that were made in Fiscal Year (FY) 2007 in the Navy's Morale, Welfare and Recreation (MWR) program. Building on previous initiatives and with strong support from Navy leadership, Navy MWR and Child and Youth Programs (CYP) aggressively implemented several innovative enhancements and set the stage for even more progress in the years to come.

Overview

Navy MWR professionals around the world continue their outstanding efforts to help Sailors and their families sustain morale and readiness wherever they serve. MWR continued to provide the Fleet and deployed ground units with equipment to maintain high fitness levels; internet services, through both landlines and wireless sources; recently released motion pictures; around-the-clock child care at most fleet concentration areas; and leisure time opportunities that reflect our concern for the physical and mental well-being of the Navy family. We have also expanded the scope of MWR services to help support Individual Augmentees and wounded warriors in non-traditional settings such as in Army pre-deployment camps and hospitals or rehabilitation centers.

Commander Navy Installations Command (CNIC) has embarked on "Navy Shore Vision 2035" which encompasses an aggressive MWR capitalization strategy with \$96M million in appropriated funds programmed for fitness centers and \$42M million for child development centers included in the President's FY 2009 Budget Request. In addition, we are assessing funding requirements to improve Single Sailor/Liberty Centers which support our junior Sailors. Finally, the Navy continues its aggressive nonappropriated fund (NAF) construction program to maintain and enhance our business activities. These investments all demonstrate the Navy's long-term commitment to enhancing total force readiness.

Our customers appreciate the difference these efforts are making and have told us that their level of overall satisfaction remains high and continues to improve. Our 2007 MWR customer satisfaction survey reported a level of satisfaction of 84 (on a scale of 100), which is one point higher than in FY 2006 and significantly higher than industry benchmarks (73). Some key developments that occurred in program areas include the following.

Deployed Forces Support Program

As part of its mission of being the "Command Supporting the Warfighter", CNIC continues to ensure that Sailors at the "tip of the spear" are getting the fitness, recreation, and leisure equipment and supplies they need. Deployed Forces Support professionals continue to provide fitness equipment and recreation support programs to deployed forces at sea and ashore. In FY 2007, CNIC distributed more than 20,000 pieces of recreation and fitness equipment to the Fleet. Equipment was centrally purchased and distributed throughout the worldwide network of Deployed Forces Support specialists at fleet concentration centers. Additionally, Deployed Forces Support personnel provided 9,500 pieces of fitness, sports and recreational gear to more than 110 commands/units in isolated and remote areas of the world to support vital off-duty leisure opportunities.

In order to be more effective in assisting Navy's deployed ground forces, CNIC has undertaken several actions during the past year. Specifically, CNIC:

- Placed two recreation professionals on the ground in the 5th Fleet/NAVCENT Area of Responsibility to further ensure complete support of ground forces and to maintain proper equipment and supply controls. These professionals work with Force, Regional, and Unit Leadership on a regular basis to make sure we are providing Component Commanders the necessary support.

- Revised and upgraded deployment kits (i.e. basic recreation equipment and supplies) based on the number of personnel at each site.

- Established the "Holiday Gift Box Program" in which each deployed ground Sailor receives a holiday gift box that includes items such as candy, holiday cards, free phone cards, and t-shirts.

To provide positive leisure support, 27 civilian recreation and fitness professionals live and work onboard aircraft carriers, amphibious assault ships, and submarine tenders. CNIC has also established a new program that placed two fitness professionals on the waterfront at Naval Station Norfolk, VA to further assist fleet units. These individuals work directly with ships, concentrating on small ships and submarines pierside to offer assistance and provide pierside fitness activities, Fitness Enhancement Program (FEP) guidance, and fitness instruction. Based on metrics showing marked improvement in fitness test scores, expansion of this program is already underway for 2008.

Fitness

CNIC Fleet Readiness is committed to establishing a "Fitness for Life" program for all members of the Navy community. The primary goal is to help people make healthy lifestyle changes. Focusing on that key point, Navy Fitness is building programs, services and activities that will assist people in making healthy lifestyle behavioral changes. The campaign slogans are "Exercise Your Options" and "Stay Healthy-Stay Fit-Stay Navy". The goal of the CNIC Fitness program is to create a total fitness program for all members of the Navy community in accordance with Department of Defense (DoD) and Navy instructions, which acknowledge fitness as a vital component of readiness and essential to the general health and well-being of all personnel.

In FY 2007 all Navy Fitness Centers were resourced adequately and established programs and services to increase physical activity and nutrition awareness for three patron groups: youth, families, and personnel over 40 years of age. Navy Fitness Centers attained 100 percent compliance with DoD core Physical Fitness Standards in 2007. The FY09 Budget request includes Military Construction of 3 fitness complexes in 2009. These projects are critical to ensuring the highest levels of readiness for our Sailors.

Individual Augmentee Support

Individual Augmentees (IAs) are Sailors who support or "augment" another Navy, Marine Corps or Army commands. Sailors usually go to their IA assignment on temporary orders and return to their current or "parent" command once they complete their assignment. Assignments vary in length from a few months to a year or more.

The Navy is currently providing quality of life support to Navy IA personnel at various training sites. Many of these sites presented significant challenges to meet the needs of the 21st century Sailor. Their needs can be grouped into a few major categories: habitability, Internet connectivity, transportation, recreation, and fitness support. The Navy is providing internet and wireless connectivity through Army contracts with internet service providers and "air cards" at various Army training bases. Additionally, fitness equipment, passenger vans, recreation deployment kits, various electronic game systems (e.g., Xbox 360, and Wii), flat-screen televisions, satellite TV service, and portable 8mm movie systems have been delivered. The type of support being provided is similar to what is typically available to Navy personnel aboard ships and at almost every ashore installation. The positive reception of this program by our IAs has been very gratifying.

Wounded Warrior Support

MWR support is currently being provided for severely injured service members throughout the Navy. For example, in San Diego, the southwest region MWR activity is working in conjunction with Naval Medical Center San Diego (Balboa) to offer a wide-range of adaptive recreational activities for severely injured service members or "wounded warriors". MWR is working closely with Balboa's Warrior Athlete Program, which serves recovering injured military members, family members, or veterans who cannot participate in ambulatory sports and fitness activities. The program offers a variety of opportunities to play sports, improve fitness levels and enhance overall health and lifestyle. Additionally, Naval Base San Diego, CA is retrofitting facilities to ensure disabled accessibility and usability. Currently, a swimming pool ramp and access chair for the Admiral Baker Pool, a lift chair for the Admiral Prout Pool, and disabled accessible fitness and aerobic equipment are being provided. The programs in San Diego that prove to be the most beneficial will be exported to other Navy locations that also support "wounded warriors".

MWR also offers top priority for access to child and youth programs to wounded warriors and their families. In FY09 as well as over the long run, Navy will continue to work closely with DoD to ensure a well planned program that supports wounded warriors.

Movie Program

The Navy Movie Program continues to be one of the most popular recreational activities for Sailors and their families. Program venues range from shipboard to base theaters to Liberty and Recreation Centers and to isolated and remote shore units, demonstrating that the Navy has a movie program that is flexible and adaptable to any environment. The Navy Motion Picture Service (NMPS) purchased and distributed 198 movie titles and processed more than 300,000 videotapes and 13,000 cans of film to 810 Navy fleet and shore sites, as well as Marine Corps, Coast Guard, National Oceanographic Atmospheric Administration, Military Sealift Command and Department of State locations worldwide. These efforts resulted in over 23 million fleet viewing hours and 5 million customers ashore in FY 2007.

Patrons at our overseas base theaters enjoyed 34 of the biggest movies released last year just a week or two after their U.S. premiere. CONUS audiences were treated to 19 free admission sneak previews attended by 120,000 Sailors and their families. Deployed forces received 14 early tape releases that included such popular titles as "Fantastic 4: Rise of the Silver

Surfer”, “Live Free or Die Hard”, and “Night at the Museum”. The Navy also hosted three lucky contest winning Sailors and their children in Charlotte, NC, for the world premiere of Disney’s animated feature “Cars”.

NMPS began the transition process to digital delivery of movies by awarding a contract for an encrypted DVD player to replace the less secure analog videotape service currently being used. Switching to this new technology will blend with the Naval Media Center’s plan to convert shipboard distribution of entertainment and training programming to a digital platform. We expect to begin rollout of this program in FY 2008.

NMPS continues strong support and service to our forward deployed forces via the mobile movie program known as Theater-In-A-Box (TIB). Forty-five of these equipment packages have been shipped, along with 10,000 movies on tape. The Fleet continues to receive updated versions of their Cinema At Sea (CASI) package which provides each ship with the capability to present large-screen movie and special event programming.

Library Program

Navy libraries continued their upward performance trend of the past few years by attaining 91 percent compliance rate with core DoD MWR library standards, up from 90 percent in 2006. In addition, eight Navy libraries attained a 100 percent score on meeting these standards, an increase from five in 2006.

Navy also continued to enhance library services delivered via electronic media hosted by Navy Knowledge Online (NKO). Audio book access increased to over 11,000 titles, downloadable music now includes more than 1300 titles and access to over 500 new videos. Library service to forward deployed forces included 500 new laptops for shipboard Library Multimedia Resource Centers (LMRCs), 175,000 popular paperbacks, and 12,000 units of a new service called Playaway Books, which are self contained, battery-operated audio books the size of a credit card. To ensure ongoing professional development, the Navy continues to participate in the annual Joint Services Library Conference, a cooperative effort with the Air Force that combines training and library skill development for shore library personnel. In support of distance learning and self-improvement opportunities, the Navy increased access to College Level Examination Proficiency (CLEP), DANTES Subject Standardized Tests (DSSTs), and Armed Services Vocational Aptitude Battery Practice Tests (ASVAB). Expanded access to all these services has been accommodated via upgraded and expanded computer equipment and by providing no-fee wireless internet service to customers.

Food and Beverage

Navy MWR food and beverage programs are on-base, customer-driven business activities, ranging from full-service “clubs” to quick-service “snack bars”. MWR food and beverage programs promote and maintain the well-being, morale and efficiency of the Navy community and foster camaraderie and esprit de corps consistent with Navy values as a benefit of military service.

There are more than 400 MWR Food and Beverage operations world-wide serving our Sailors and Navy community. MWR food and beverage outlets include full-service dining rooms, catering services, conference centers, snack bars, casual dining pubs, taverns, cocktail lounges, delis, coffee shops, and nightclubs. They can be found in locations such as clubs,

catering and conference centers, recreation centers, golf clubhouses and bowling centers. Revenue from MWR food and beverage operations accounts for over 45 percent of our total Category C business activity revenue.

We have installed food and beverage “branded concepts” in all 13 Navy regions in response to customer interest. Some of our more popular brands include A&W, KFC, Pizza Hut, Mean Gene’s Burgers, Starbucks-We Proudly Brew, Smash Hit Delis and Guinness Casual Dining Irish Pubs. We now have more than 100 branded food & beverage outlets. MWR has also partnered with the Navy Exchange (NEX) by using its contracting capabilities to source national brands from their portfolio. Examples of some of those efforts include a full-service Starbucks on Naval Air Station Pensacola, Florida, Applebee’s on Naval Air Station Sigonella, Italy, Taco Bell on Submarine Base Bangor, Washington, and Subway on Navy Regional Contracting Center, Singapore.

Additionally, we have recently completed an Intra-service Navy-wide Food Service Assessment. The assessment included MWR, NEX and Navy Supply Corps food service programs. Results from the assessments are being tabulated and should be available later this year to help optimize the number of product delivery outlets on base. Finally, Navy MWR is working with its vendors and other food service professionals to eliminate trans-fat in its food offerings by the end of FY 2008 in a fashion similar to initiatives in other U.S. cities.

General Recreation

Liberty Program:

The Liberty program positively affects the quality of life of single and unaccompanied military personnel and contributes to Fleet readiness. Liberty programs provide high-energy recreation opportunities, quality entertainment experiences and development of personal leisure skills in an alcohol and tobacco-free environment. These activities are delivered through 80 Liberty programs Navy-wide. A robust Liberty Program is an integral part of Navy’s efforts to reduce the number of alcohol related incidents.

This year, the Liberty program expanded its services by offering free wireless internet in all CONUS locations. Additionally, in an effort to provide the optimum recreational facilities for single Sailors, renovations have moved forward on Liberty centers at Naval Base Coronado, California, Naval Air Station Lemoore, California, Naval Surface Weapons Center Dahlgren, Virginia, Naval District Washington (Anacostia), Naval Base Guam, Naval Submarine Base New London, Connecticut and Naval Weapons Station Earle, New Jersey.

Additionally, Liberty centers were reopened after extensive renovations at Naval Air Facility El Centro, California, Naval Weapons Station Charleston, South Carolina, Naval Air Facility Whiting Field, Florida, Naval Technical Training Center Corry Station, Florida, and Naval Support Activity Souda Bay, Greece. The Liberty centers at Joint Reserve Base New Orleans, Louisiana, Naval Support Activity New Orleans, Louisiana, and Naval Construction Battalion Center Gulfport, Mississippi that experienced substantial hurricane damage have undergone repairs and are all now operational. They offer Sailors at each location computer and internet services, the latest video games, pool/game tables and a wide-ranging calendar of special events and activities.

In an effort to ensure the program continues to be meaningful to the junior enlisted community, MWR activities are in the process of assessing all Liberty centers to determine the need for future renovations, expansion and new construction where conditions warrant.

Entertainment:

Navy MWR continues to be heavily engaged in partnerships with Armed Forces Entertainment, USO and the National Endowment for the Arts to facilitate delivery of first-rate, live entertainment programs (e.g., comedians, musicians, celebrities, sports stars) to deployed and afloat units throughout the world, including family-friendly performances for Navy families in CONUS.

In the past four years, the program has facilitated over 1,500 shows reaching more than 750,000 active duty and family members worldwide. Entertainers are selected based on availability, popularity and specific needs of installations and deployed units. This year, the Harlem Globetrotters, Geoff Bodine (NASCAR driver), Marc Broussard, Adassa, Sean Paul and various NFL Players, as well as others, have traveled around the world including locations in the Middle-East and to out-of-the-way places, such as Djibouti and Guantanamo Bay, to entertain and otherwise bring goodwill to our troops. In 2007, we were able to bring more Urban/Hip Hop/Latino artists as part of our touring schedule.

In the short-term, our focus continues to be on increasing the variety of entertainment in response to customer demand. Our Commanders have said that having these types of events do more than almost anything to lift Sailors' morale.

Golf:

Golf remains very popular with active duty as well as retirees at most of our course locations. In FY 2007, projects were approved to replace the clubhouse on Naval Air Facility Atsugi, Japan and to renovate the golf clubhouse at Naval Air Station Meridian, MS.

The Navy is also partnering with the U.S. Professional Golfers Association on several initiatives to increase Sailor interest and participation in golf. These programs are targeted at women, juniors and disabled golfers. Navy is committed to providing access and necessary accommodations for all eligible golfers, regardless of disability, at Navy MWR golf courses. We have purchased six specialized golf carts to accommodate physically challenged golfers. Two specialized cars each were purchased for the Admiral Baker Golf Course, San Diego, CA, Seal Beach Golf Course, Los Angeles, CA and Aeropines Golf Course at Naval Air Station Oceana, VA. These golf courses were selected because they are in fleet concentration areas where the carts are more likely to be needed. So far, demand for these cars has been limited but we are promoting their availability.

This year, the Admiral Baker Golf Course hosted wounded warrior golf clinics over a six week period during the spring season. Each two-hour session was conducted by six PGA professionals. Each clinic hosted 8-10 participants and included time on the driving range, putting green, short game area, and practice hole. Participants who had lost lower limbs learned to use the MWR-provided specialized golf carts which enhance mobility. These clinics, co-sponsored by PGA of America and Disabled Sports USA, are helping "wounded warriors" and disabled golfers continue to participate in the sport of golf and are also introducing golf to those who did not play previously.

Unfortunately, in recent years, the exception to the mostly positive news in the golf program has been a trend of declining activity at a number of Navy nine-hole golf courses. The average number of rounds dropped to all-time lows of less than 3,000 with corresponding reductions in cash flow. A few of the reasons for reduced play include substandard playing conditions, local demographics, BRAC impacts, stepped-up force protection measures, and increased competition in certain parts of the country. In FY 2007, four nine-hole golf courses (Naval Weapons Station Yorktown, Virginia, Naval Surface Warfare Center Dahlgren, Virginia, Naval Surface Warfare Center Indian Head, Maryland, and Naval Support Activity Mechanicsburg, Pennsylvania) were closed due to reduced play and subsequent lack of profitability.

Bowling:

Bowling is currently enjoying a period of growing popularity and financial stability. By applying new technologies, broadening customer focus, and offering an assortment of entertainment options bowling has been able to draw on our country's renewed emphasis on longstanding family values. Similarly within the Navy, bowling is attracting a wider range of eligible patrons. By improving facilities, launching aggressive marketing programs, and adding complementary activities most bowling centers have redefined themselves as "family entertainment centers", which have made them more effective competitors for the limited entertainment dollar and scarce spare time of active duty service members and their families.

Also of importance, our bowling managers are working with the Bowling Proprietors Association of America to develop new programs for patrons, including adaptive bowling programs for severely injured military personnel. A number of Navy bowling centers have purchased wheelchair accessible bowling ball ramps to enable the disabled to participate in bowling programs. Some MWR bowling centers in the Southwest Region have also hosted open bowling programs for wounded warriors.

Marinas:

Navy installations are typically situated on the waterfront where marinas are logical extensions of the topography. Currently, the Navy has 33 marinas providing programs and services that are highly valued by a growing segment of the MWR customer base. Most Navy marinas offer boat slip rentals, mooring and a full-range of marina services.

We are continuing in FY09 and beyond to replace or repair marina infrastructures that are beginning to reach the end of their useful lives. Such projects this year include replacing a sailing classroom where sailing and boating safety instruction is held to adding slips to accommodate increasing boater demand.

Information, Tickets and Tours (ITT) Program:

ITT program managers for the Navy, Marine Corps and Army are working with industry partners to develop an innovative forward-looking service delivery approach. The goal is to produce "ticket-less" vouchers that can be printed on demand at each ITT office as an alternative to maintaining large stocks of paper tickets. This method will simplify the contracting process and help national attractions reach a military market of more than ten million potential

customers. A single, centrally negotiated agreement will supplement local contracts and provide real-time access to military installations throughout the world. Unlike the current ticket program, vouchers will not require annual distribution, recall, and year-end reconciliation of accounts. In the long-term, we hope to provide authorized patrons direct internet access for purchasing tickets.

Recreational Lodging:

The Navy Recreational Lodging program has been realigned under CNIC Lodging, and will continue to be an important focus for Quality of Life programs. CNIC's goal is to provide eligible patrons high quality affordable lodging at vacation destinations in our domain.

Standardization of recreational lodging has been launched this year with a single-source contract for all amenities, linens, TVs, and such. This new initiative will help ensure patrons receive consistent service and quality furnishings at all recreational lodging locations. Additionally, patrons are experiencing new ease of reserving their vacation rental by choosing on-line reservations or calling the specific recreational lodging property directly. The popularity of Navy Recreational Lodging has grown steadily, triggering an increase in construction of new facilities to meet the demand. Recent examples include new cabins at Naval Weapons Station Yorktown/Cheatham Annex and Portsmouth Naval Shipyard's Great Pond facility.

Child and Youth Programs (CYP)

CYP continues to offer multiple delivery systems that include Child Development Centers (CDC), Child Development Homes (CDH), Child Development Group Homes, School Age Care, and a resource and referral program. In FY 2007, Navy programs cared for 45,780 children ages 6 months to 12 years and served over 70,000 youth ages 13-18 in 124 child development centers, 103 youth centers and 3,115 on- and off- base licensed child development homes. In FY 2007, these services achieved 70 percent of DoD potential need criteria and attained a 100 percent DoD certification rate for operational excellence. Our 100 percent DoD certification rate tells our Navy families that their children are receiving top-quality care that equals or exceeds the highest DoD and national standards.

Our objectives for FY 2007 were to improve deployed support programs, execute initiatives to expand capacity, focus on youth obesity prevention, sustain affordability of care, and ensure continued program quality. CYP met these objectives after a year of many significant advances. A few of the highlights include:

- To assist parents and children with the challenges of frequent deployments, an additional 100,000 hours of respite child care was provided for families of deployed service members. Now more than ever, this type of care is critical to our families – those that may not have needed child care support in the past now rely on this interim support.
- In ongoing efforts to combat youth obesity, CNIC has implemented a new world-wide youth fitness initiative called "FitFactor". It was developed as a means to increase youth interest and awareness in the importance of making healthy lifestyle choices.
- Sailors and their families continue to cite the lack of available, affordable child care as one of their top family readiness issues. With a current waiting list in excess of 8,100 children and an average waiting period of six months or more, Navy has launched an aggressive child care expansion plan adding 4,000 new child care spaces within the next 18 months. This

expansion includes construction of new child development and youth centers (including facilities open 24/7), commercial contracts for child care spaces, and expanding military certified home care. In addition to the new spaces, the Navy is converting 3,000 existing 3 to 5 year old spaces into infant to 2 year old spaces to meet the greatest demand, children under the age of three. Combined, these initiatives will reduce the waiting time for child care to less than three months Navy-wide, with first priority given to single military parents.

- Navy families continue to praise the quality and affordability of military child care. In a report released in 2007 by the National Association of Child Care Resource and Referral Agencies, entitled "We Can Do Better: Ranking of State Child Care Center Standards and Oversight" military child care center operations were ranked number one in the country.

Overall Financial Condition of MWR

MWR appropriated funds (APF) are provided through the Base Operating Support (BOS) budget line in the Operations and Maintenance (O&M) account. The funding environment continues to challenge us to seek efficiencies, while at the same time the importance of providing programs for the Navy Family is increasing. Global War on Terrorism (GWOT) funding provided critical program support for MWR in FY 2007, with MWR receiving over \$60 million of such funding. This funding was executed to expand program support for deployed forces and to expand CYP support in fleet concentration areas. The FY09 Budget will allow us to remain on par with recent performance in these critical areas.

By far, the biggest NAF funding challenge for FY 2007 was the elimination of CNIC's NAF Bridge Strategy. In FY 2005 we implemented our "bridge funding strategy" to re-deploy Navy Exchange dividends, normally dedicated to NAF capital spending, for operational support. The bridge funding strategy was also used in FY 2006, but at significantly reduced levels from FY 2005. In FY 2007, the practice was completely eliminated and NAF funding was shifted to support capital spending. The two-year phase out period provided CNIC regional operators time to implement efficiencies without significantly degrading program delivery of valued customer services.

For FY 2007, Navy MWR fully implemented a capital funding strategy designed to leverage system assets and significantly increase the amount of NAF capital funding available for FY 2007 through FY 2009. This strategy allows the central capital fund to use existing cash balances for capital investment. The MWR/NEX Board of Directors has approved an annual NAF central and local capital funding target of \$77 million. This target is the minimum investment needed each year to maintain existing facilities, provide needed computer upgrades, and expand program delivery. For FY 2007, the MWR Central Capital Program contained about \$65 million in projects and Informational Technology (IT) spending. In addition, local capital investment amounted to \$19 million. The combined investment total of \$84 million exceeded our goal of \$77 million.

Worldwide Navy MWR financial operations totaled about \$922 million in FY 2007, which includes APF (direct and indirect), internally-generated NAF revenue, and Navy Exchange dividend distributions. This amount represents an increase of about \$38 million from the previous year. In FY 2007 we exceeded the DoD minimum standard of 85 percent for APF support in Category A Mission Essential Programs by achieving 92.2 percent. In category B Community Support Programs, 61.5 percent of authorized costs were paid with APF, compared to the DoD minimum requirement of 65 percent. Category B programs were more dependent on

NAF to operate in FY 2007, with APF being targeted for execution in core Category A programs. However, the Navy remains committed to providing non-core Category B programs and funding with APF to the maximum extent possible.

Facilities

The MWR Nonappropriated Fund Capitalization Program (NAFCON) represents a significant and dynamic commitment to the enhancement of services and programs for Sailors and their family members. The program includes twenty new construction, renovation, minor projects, and capital equipment investment approaching \$60 million. This year's program reflects the continuing need for investment in business-based operations (14 projects at \$43.2 million) and community support facilities (6 projects at \$14.4 million). These initiatives span a broad project spectrum inclusive of recreational cottages, marinas, golf maintenance compound, clubs, youth centers, recreation vehicle parks, and beach lodging. Our capital enterprise strategies focus us on customer-driven services while striking a balance with revenue generation and community service opportunities.

This year we will also complete five modular child development centers made possible through the expanded authorization contained in the FY 2006 and FY 2008 National Defense Authorization Acts. This emergency intervention also includes the construction on two additional 24/7 Group Homes at Naval Amphibious Base Little Creek, VA and Naval Station Norfolk, VA. In addition, the First 5 Commission of San Diego is sponsoring two additional centers in San Diego. Of equal importance to these accomplishments is the leadership focus on the expansion of Navy child development centers, the impact of which we spoke to earlier in this testimony.

In addition to the above, our focus on the sponsorship of healthy lifestyles and total fitness through the replacement and modernization of our fitness centers is among the Navy's highest quality of life priorities. We believe this is the surest way to demonstrate the importance we place on the health and readiness of our top priority—our people. The results of our annual surveys indicate that fitness centers are rated as the highest priority by Navy personnel with utilization above 90 percent for all groups. Our challenge is to balance other competing mission requirements within resources provided. I thank you of your support for this important initiative and am pleased to relay that we will be awarding the first contract for the Naval Station Guam Fitness Center this year.

We are also working on better facilities for one other very important program, Single Sailor Liberty Centers. This program is focused on single Sailors and geographical bachelors within an alcohol-free and tobacco-free recreation environment. These centers will be the "anchor" facility that is bordered by complementary functions (comparable to civilian malls). We refer to this as our "clustering concept" which aligns quality services and program support to the needs of our warfighters.

Business Processes

Strategy for Our People.

Our human resource strategy remains focused on attracting, developing and sustaining a world-class, customer-oriented workforce.

CNIC's Fleet and Family Readiness (FFR) Training Branch is consolidating and centralizing training management and support for all of the quality of life communities including: MWR; CYP; Family and Bachelor Housing; Galleys and Food, Beverage and Entertainment; Navy Gateways Inns and Suites (NGIS), and Fleet and Family Support Programs (FFSP).

Our efforts will result in a standardized new-hire orientation process; F&FR programs support through the student intern program; application of performance-based and participant-centered training methodologies; endorsement and support of life-long learning; availability of cross-program training and cross-career competition; establishment of a structured F&FR mentoring system; execution of blended learning solutions that assure just-in-time, just-right, just-enough training; and implementation of the SAP Learning Solution (a learning and content management system). The goal of our people strategy is an efficient and effective world-class workforce, prepared to deliver the best possible customer experience, every time, everywhere.

Marketing.

The Marketing and Multimedia Development branch continued its comprehensive approach to promoting MWR programs and services through news articles and feature stories, internal publications, tri-folds, posters, public service announcements, videos, interactive CD-ROMs and DVDs.

An interactive CD-ROM entitled "Europe: Your Passport to Adventure," was designed and distributed to promote MWR and other Fleet and Family Readiness (F&FR) programs in Europe, as well as provide information about local customs, traditions and travel information. This product joins a list of other regional interactive CD-ROMs developed by the marketing team, including Japan, Guam and Korea, the Middle East and the Northwest region.

A comprehensive marketing plan was executed to promote physical fitness and nutrition to the entire Navy family. The "Exercise your Options" fitness campaign included nine posters with exercise and nutrition themes, a video public service announcement, and training videos.

Obtaining feedback on MWR programs and services remains an important marketing tool. Navy-wide assessments were administered in 2007 to measure patron satisfaction with various MWR programs, to measure employee job satisfaction, and to establish a baseline score that could be used for a Navy-wide food service assessment. The MWR customer satisfaction assessment was 84 on a scale of 100, which is considered excellent according to the Claes Fornell International (CFI) Group, an independent expert in the customer satisfaction measurement industry, which conducted the survey. The MWR employee satisfaction assessment, also conducted by the CFI Group, resulted in a score of 74, which is above comparable industry standards.

Computer Services.

A state-of-the-art NAF management information system encompassing accounting, personnel, payroll and cash management is an essential element to enhanced efficiencies. The NAF accounting, cash management, personnel, and payroll modules of the system are now operational at all U.S. and overseas bases. The point-of-sale portion of the project is projected for completion by the end of 2008. This Accounting Information System (AIMS) system is integral to our continued efforts to streamline and reduce costs.

The Navy started implementing an online lodging system that includes a world-wide reservation system that allows customers to book official and recreational lodging and also helps streamline front desk operations. Plans include implementing the system at all naval installations that offer Navy Gateway Inns and Suites and recreational lodging facilities, such as cabins, cottages and RV parks, within the next 16 months. The new system will provide tools and processes that will help increase occupancy and provide outstanding customer service.

As a part of this implementation, the Navy initiated a partnership with the Air Force because we share the same requirements of assisting travelers with booking reservations, providing comfortable lodging and excellent customer service. This has truly become a joint project with the Air Force. We have standardized the software we are using and are sharing data centers and support personnel. In addition, we are leveraging the Navy Lodge's existing call center to provide customers a one-stop shop for all their reservation needs. This not only provides our customers with one Web site with the flexibility to book recreational or official travel at any Navy or Air Force facility, but it also streamlines our business processes and helps increase occupancy and reduce costs for both programs.

Commercial Sponsorship.

Our central commercial sponsorship efforts have helped forge strong ties with industry and have also helped provide services to Sailors and their families that otherwise might not have been affordable. In FY 2007, total commercial sponsorship agreements entered into centrally were about \$1.5 million. This is in addition to \$2.5 million in cash and an estimated equivalent amount in services and products that local MWR activities obtain from sponsors in their areas. These agreements helped us to provide over 80,000 pre-paid phone cards to Sailors, holiday gift packages, entertainment, and reading materials.

Disaster Preparedness.

MWR, in conjunction with CNIC regional emergency response offices and other family support programs, is equipped to provide temporary power, water, food service, recreation and child care facilities, recreational, and housing needs for first responders within just a few days. In addition, F&FR is prepared to surge counselors and other professionals as needed to disaster zones in support of Sailors and families. Hundreds of volunteers from around the Navy MWR community are also prepared to support their fellow teammates in disaster areas when needed. This organizational approach showed its great value again recently as MWR was a key player in support of evacuee needs during the recent fires in San Diego.

Lean Six Sigma.

MWR has trained several team members to apply process improvement using Lean Six Sigma initiatives and have completed two projects that are now in the control phase. One project addressed the acquisition of nonappropriated fund purchased vehicles while the other improved how MWR prices out its overall appropriated fund requirements. This year, we will use Lean Six Sigma techniques to analyze the possibility of consolidating similar services under a single

roof to reduce waiting time for Sailors who use them and will also study how best to handle small purchases.

Summary and Outlook

FY 2007 was a year of exciting new developments and direction for MWR and the years ahead look even brighter. We are taking care of our Sailors and their families in a wide variety of venues. We are improving the key facilities in which MWR provides programs. We are greatly expanding Child and Youth programs to meet ongoing demand signals. We are reaching out to provide MWR services to our IAs and wounded warriors and their families in a variety of different venues. Our fitness programs continue to improve on their already high standards. We are continually checking with our patrons to make certain that we provide them with the services they need at a quality level equal to or exceeding the best in the industry. As a result, MWR continues to be a key weapon in ensuring the ongoing readiness and retention of Sailors throughout the Navy.

The Navy appreciates the great value that our Sailors and Congress place on MWR and Child and Youth Programs and we will continue to maintain and strengthen our commitment to do our utmost to meet those respective expectations. Thank you for your continued support.

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DEPARTMENT OF THE AIR FORCE

PRESENTATION TO THE MILITARY PERSONNEL SUBCOMMITTEE

COMMITTEE ON ARMED SERVICES

UNITED STATES HOUSE OF REPRESENTATIVES

SUBJECT: MORALE, WELFARE AND RECREATION (MWR) OVERVIEW

STATEMENT OF: MR. ARTHUR J. MYERS
DIRECTOR OF SERVICES
UNITED STATES AIR FORCE

APRIL 15, 2008

NOT FOR PUBLICATION UNTIL RELEASED
BY THE COMMITTEE ON ARMED SERVICES
UNITED STATES HOUSE OF REPRESENTATIVES

ARTHUR J. MYERS



BIOGRAPHY

UNITED STATES AIR FORCE

ARTHUR J. MYERS

Arthur J. Myers, a member of the Senior Executive Service, is Director of Air Force Services, Headquarters U.S. Air Force, Washington, D.C. His organization's mission is to increase combat capability and improve productivity through programs promoting readiness, esprit de corps and quality of life for Air Force people. Mr. Myers serves as the single focal point for the Survivor Assistance Program under the Air Force Chief of Staff. In this capacity, he brings together key staff agencies and field activities to provide immediate information and assistance to wounded Air Force members, the families of deceased personnel, field commanders, investigating boards and Air Force senior leadership. Mr. Myers provides policy, technical direction and oversight for the worldwide services program which includes physical fitness, peacetime and wartime troop feeding, mortuary affairs, Air Force protocol, lodging, libraries, Airman and family readiness, child development centers, youth centers and a wide spectrum of recreation activities. He manages Air Force-wide military pay and compensation policy, equal opportunity, and other commander-interest programs that contribute to military force sustainment. He also provides executive-level management and control for worldwide business operations such as officer and enlisted clubs, golf courses and bowling centers. In addition, Mr. Myers also serves as executive agent for the Department of Defense in managing the Armed Forces Entertainment Office and department-wide initiatives in support of military funeral honors programs.



Mr. Myers graduated from Arts High School in Newark, N.J. Shortly thereafter he enlisted in the Air Force, where he served 20 years on active duty. During his military career, Mr. Myers held several different positions in the morale, welfare and recreation, and comptroller fields. His assignments included Wheelus Air Base, Libya; five tours in Southeast Asia; Bitburg Air Base, West Germany; and several assignments in the United States. In 1982, Mr. Myers started his civilian career with the Air Force. Since that time he has held several positions at base and major command levels. He moved to Headquarters U.S. Air Force in February 1991 as the first deputy director of the organization, then known as Air Force Morale, Welfare and Recreation. Mr. Myers remained there through several reorganizations and assumed his position as Director in January 1998.

EDUCATION

1978 Bachelor of Science degree in business management, summa cum laude, Golden Gate University, San

ARTHUR J. MYERS

San Francisco

1980 Master of Science degree in business management, Troy State University

2006 Program for Senior Managers in Government, John F. Kennedy School of Government, Harvard University, Cambridge, Mass.

CAREER CHRONOLOGY

1. February 1982 - August 1982, club manager, 483rd Combat Support Group, McGuire Air Force Base, N.J.
2. August 1982 - December 1984, club manager, 317th Combat Support Group, Pope AFB, N.C.
3. December 1984 - September 1987, Deputy Chief of Morale, Welfare and Recreation, and Installation Club Manager, 18th Combat Support Wing, Kadena AB, Japan
4. September 1987 - March 1989, Director of Morale, Welfare and Recreation, Headquarters Air Force Logistics Command, Wright-Patterson AFB, Ohio
5. March 1989 - February 1991, Director of Morale, Welfare and Recreation, Headquarters Pacific Air Forces, Hickam AFB, Hawaii
6. February 1991 - February 1993, Deputy Director, Air Force Morale, Welfare, Recreation, Headquarters U.S. Air Force, Washington, D.C.
7. February 1993 - December 1997, Director of Resource Management and Deputy Director of Services, Headquarters U.S. Air Force, Washington, D.C.
8. January 1998 - present, Director of Air Force Services, Headquarters U.S. Air Force, Washington, D.C.

AWARDS AND HONORS

Bronze Star Medal

Meritorious Service Medal with two oak leaf clusters

Air Force Commendation Medal with four oak leaf clusters

1980 U.S. Air Force Club Manager of the Year

1984 and 1987 Meritorious Civilian Service Award

1989, 1991, 1998 and 2002 Decoration for Exceptional Civilian Service

1998 Morale, Welfare and Recreation Leadership Award, International Military Community Executives Association

1999 and 2004 Meritorious Executive Presidential Rank Award

2003 Department of Defense Distinguished Civilian Service Award

2004 Lifetime Achievement Award, American Logistics Association

2005 National Service to Youth Award, Boys & Girls Clubs of America

2005 Alumni Hall of Fame, Boys & Girls Clubs of America

(Current as of September 2006)

Madam Chairwoman and members of the Military Personnel Subcommittee, thank you for this chance to appear before you and talk about our Air Force MWR programs. We build combat readiness through a wide range of programs that both sustain the Air Force mission and create a culture of community support for all Airmen and their families. Even with continued high operational deployment tempo, we have not faltered in providing critical functions that ensure mission success while maintaining an environment with the highest quality of life possible. Our efforts tie directly to Air Force success in combatant arenas and on the home front.

We are maintainers. We proudly maintain the human warfighting machine, our Air Force's number one weapons system. We fuel it, we keep it tuned, we provide it with a place to park, and we periodically refresh it. In contingency environments, your Air Force Services Airmen make sure America's warfighters have hot meals, stay fit, are well rested, have access to clean uniforms, enjoy ways to recuperate and regenerate when they're not directly on duty, and have positive venues for relieving the pressures and stresses that build up during the course of their duties. Our forward-deployed MWR programs contribute directly to the success of the military mission.

As the Air Force evolves in the way it postures for mission success, Air Force MWR programs are simultaneously evolving into a leaner, lighter, more efficient and more responsive effort that adapts to the changing military environment while maintaining its relevance to meet long term Air Force needs. In the past year, we've fully implemented our realignment from the Installations and Logistics community, which focuses predominantly on equipment and infrastructure, to the Manpower, Personnel and Services community with its primary focus on people.

We are also adapting to changes in our base-level environments and to ongoing reductions in our manpower and financial resources. The 2005 Base Realignment and Closure

legislation drove us to examine our programs closely, especially at the ten locations where our Air Force programs will be integrated into joint base installation MWR programs. We've been fully engaged in developing the common standards for use at these bases. Our goal continues to be for our Airmen and their families to enjoy the highest possible quality of life, with the highest possible standards for our MWR programs, regardless of who operates the base where they are stationed. We appreciate the Subcommittee's historical emphasis on the proper sourcing for realignment and closure costs, and trust that your continued vigilance will protect the servicemembers in the future.

The past year also brought reductions in manpower and financial resources. As part of a larger Air Force strategy to recapitalize its weapons systems through deliberate efficiency in the way we use manpower, we reduced Air Force Services by 355 enlisted, 87 officers, and a number of civilians. This drove us to rethink our processes and re-engineer the ways we use our personnel, both at home station and in deployed settings. We're aggressively pursuing a number of efficient and transformational initiatives that will not only mitigate these losses, but also help us adapt to projected reductions in the coming years. I'll mention some of these new initiatives in greater detail later in this statement.

As officially stated, the Air Force's number two priority is to "Take Care of Our People." We take that message to heart, and every program we provide is targeted at taking care of our Airmen and their families.

Readiness, Casualty and Mortuary Affairs

Military members of the Air Force Services team provide combat support and community sustainment around the globe, in a wide-ranging variety of environments: from small short-term contingency locations, to larger sustained deployment settings, to installations located outside the

continental United States, to bases located in America's heartland. They maintain a constant state of readiness to deploy and go wherever they're needed.

At any given time during 2007, Air Force Services had more than 532 Airmen deployed to 19 different AFCENT sites. These Airmen served over 33,780 meals every day to deployed United States and Coalition forces. They kept Airmen healthy and fit to fight with a variety of fitness and recreation support. They successfully created top-notch recreation programs and entertainment to relieve stress from duties and operational tempo, and to alleviate the strain associated with extended separation from families. Our Learning Resource Centers facilitated professional development, offered civilian education, supported mental diversion from combat duty, and maintained connectivity to the outside world—all done on-site at each deployment location! These Airmen may not play the most glamorous roles, but the key support they bring to each and every warfighter is pivotal in the cumulative morale, welfare and recreation at all our deployment sites, regardless of their size.

Our readiness policy and planning staff hasn't been idle on the home front. With continued deployments for our Services Airmen, we've constantly researched new developments in field equipment that meets the needs and initiatives of our deployed commanders. We've partnered with research groups like Natick Laboratories for equipment modernization. Our new expeditionary kitchen initiative will allow our deployed personnel to operate field feeding in austere locations from an entirely electric-based platform, completely eliminating the need for hazardous fuel-fired equipment. We expect to deploy this new feeding platform as soon as fiscal year 2012.

Another research partnership initiative involves modifications to the transfer cases we use to return with dignity those comrades in arms who are killed in the course of their service to America. Recovery and return is one of our most sober responsibilities, and we take great care

to ensure it's done with the utmost respect to fallen Airmen and their families. We're currently testing modifications such as new insulation and external temperature gauges for transfer cases, and we've partnered with the United States Army to test ways to track these shipments better with specialized radio frequency identification equipment. This joint testing sets the stage for eventual combined tracking all the way from theater operations to our port mortuary facility in the Charles E. Carson Center for Mortuary Affairs at Dover Air Force Base, Delaware. Our Airmen deployed to support this Center work hand-in-hand with the Armed Forces Medical Examiner, the Federal Bureau of Investigations and liaisons from the other component services.

Air Force Services is the primary advisor to the Air Force Chief of Staff for all mortuary affairs matters. Air Force Casualty Services notifies family members and beneficiaries when their loved ones have died and provides compassionate assistance in the wake of the notification. In conjunction with our Services realignment to the Manpower and Personnel community, we took steps in 2007 at the Air Force headquarters to co-locate the casualty affairs function with mortuary affairs, and have seen a huge gain from synergizing these related programs. This combined Casualty and Mortuary Affairs office does far more than track fallen Airmen. They are also our lead office for the Air Force Survivor Assistance and Wounded Warrior programs.

The Air Force Survivor Assistance program continues with its original mission to assist the families of Airmen who die while on active duty. We have since expanded the program to assist seriously ill, injured, and wounded Airmen who are away from their home station, and their families. This includes local transportation for family members, lodging arrangements, assistance with benefits, and referral to the correct agencies to answer non-medical questions. We appoint Family Liaison Officers for each wounded, ill, or seriously injured Airman, to interact with the family and help to get things done and issues resolved. Our Survivor Assistance program is accessible 24 hours a day to anyone via a toll-free telephone call.

One of our wounded warriors, Staff Sergeant Christopher “Matt” Slaydon, is an Explosive Ordnance Disposal team member assigned to the 56th Civil Engineering Squadron, Luke Air Force Base, Arizona. On October 25, 2007, while on deployment to Iraq, Sergeant Slaydon was seriously wounded when an Improvised Explosive Device exploded during a mission with the Army’s 10th Mountain Division. Sergeant Slaydon sustained traumatic brain injury, amputation of his left arm above the elbow, loss of his left eye, damage to his right eye, multiple lacerations to the head and face, and facial bone fractures. He was treated at Kirkuk Air Base prior to air evacuation to Balad, Landstuhl, Walter Reed, and finally to Brooke Army Medical Center, where he continues to receive medical attention and support. During the recovery process, Matt’s wife Annette faced many tough decisions. One of the most difficult was how to stay with Matt during his recovery. Annette’s income was critical to the family meeting its monthly financial obligations, but staying with her husband meant that she has not been able to work since he was wounded. Of major concern was the “dream house” they had purchased in Phoenix before Matt was wounded and where they had spent considerable funds upgrading the property. With assistance from their Family Liaison Officer, the Slaydons didn’t have to face those challenges alone.

Senior Airman Dan Acosta, a fellow explosive ordnance disposal Airman wounded on December 7, 2005, and his wife Sandy volunteered to serve as Family Liaison Officers for the Slaydons. Senior Airman Acosta had been searching and safing an area suspected to have improvised explosive devices when a blast caused traumatic amputation of his left arm, serious injuries to his legs, scalp lacerations, and burns. He and Sandy are a phenomenal example for other Family Liaison Officers. They helped Matt and Annette Slaydon with transportation to appointments, gathering information and points of contact for numerous benefits, including resources that could assist with their financial strain. The Acostas showed them living proof of

how a couple can manage to overcome terrible adversity, and in the process forged a lasting friendship. Our Survivor Assistance Program and Family Liaison Officers are but one way Air Force Services demonstrates the importance of taking care of the Air Force family and our Airmen.

Despite an already strong program, we constantly seek ways to improve the services we can provide to seriously wounded, injured or ill Airmen or the families of our deceased Airmen. For our wounded we've begun assigning Community Readiness Consultants from their home station Airman and Family Readiness Centers earlier in their recovery process. This consultant is a critical resource who assists the Family Liaison Officer with timely benefits counseling for the wounded member and his or her family. They are invaluable sources of reference for issues like financial aid, spouse employment, and child care referral. Additionally, in concert with the Defense Finance and Accounting Service, we've developed direct lines of communication that ensure timely resolution of financial issues. And, finally we continue to cultivate contacts with civilian industry and private organizations focused on providing career planning opportunities to wounded warriors who are medically discharged.

Our Casualty and Mortuary Affairs efforts are not limited to present day, active operations. In 2007, Air Force Mortuary Affairs worked hard to repatriate 72 Americans from the Hammangi Cemetery in Tripoli, Libya when the government of Libya began to reclaim the cemetery land. These interred Americans were dependents of service members stationed at Wheelus Air Base between 1948 and 1970. At that time, there was no entitlement to return deceased family members to the States; the cost to do so commercially was beyond the means of most service members, so most were buried where they died. An Air Force Mortuary Affairs team went to Libya and exhumed 72 Americans: 3 adults and 69 children. We exhausted all available means to locate and contact next of kin, and successfully connected with 31. Of those,

18 asked to have their loved ones buried in cemeteries of their choice. The other 13, and the remaining 41 whose next of kin could not be identified or located, received a dignified concurrent burial in the Delaware Veterans Memorial Cemetery on August 24, 2007.

Protocol and Honors

Our military funeral honors program is closely tied to casualty and mortuary affairs, and 2007 was another busy year for us. Your Airmen supported requests for honors details at 26,479 funerals: 238 for active duty members; 9,337 for retirees; and 16,904 for veterans. We also partnered with the other services to support an additional 4,813 Army funerals, 555 Navy funerals, 63 Marine Corps funerals and 2 Coast Guard funerals. To fulfill these escalating requests, the Air Force participated in the Authorized Provider Partnership Program (AP3) with our Veteran Service Organization members, 2,330 of whom assisted our uniformed men and women in rendering funeral honors last year.

In total, we provided honors support for 31,912 funerals in 2007. Nearly all funeral honors support is accomplished with volunteer honor guard members who often perform these duties outside their normal work schedule and who practice and hone their movements during their off-duty time. Military honors at funeral ceremonies are often the “face of the military” to family members and loved ones, particularly at retiree and veteran funerals. This representation makes a foundational impression on young people who attend the funerals and see the honor guard in action. It took over 165,000 appearances by individuals in Air Force uniforms to support those 31,912 funerals in 2007.

Those numbers, while impressive, don’t clearly portray how the requirement has grown in the last 10 years. Throughout the 1990s, the Air Force consistently averaged about 5,500 funeral details per year. The 2000 Authorization Act mandated funeral honors for any veteran who requested them, and the number of military funeral requirements surged. As I have shown,

the Air Force supported nearly six times the number of funeral details in 2007 as it had 10 years earlier. During the same period, the number of active duty enlisted members declined by 19%, cutting the potential manpower pool available to support this program. On top of that, as bases have closed or realigned over the years, the remaining bases had to compensate by taking responsibility for an even larger geographic area. In some parts of the country, our Honor Guard Airmen drive over 250 miles each way to support military funerals on the outer fringes of their assigned area, and occasionally must stay overnight before beginning the long journey back. It's not easy being an Honor Guard member these days, but our Airmen wouldn't have it any other way; they take great pride in rendering our country's final salute to those who served before them. Even so, the aging population of veterans will cause the number of deaths to peak in 2013. We're looking at ways to ease the burden on the Honor Guard by reducing the size of the funeral detail for retirees from 10 members to 7, and by rearranging the bases' areas of responsibility to provide more equitable distribution of the honors workload. We remain committed to providing the honors that our veterans were promised.

Both the honor guard and protocol are wing commander programs, so we've taken steps to align the two functions into a single, installation-level office at our bases. Our requirements to deploy protocol officers and enlisted members in support of contingencies continue to grow, without corresponding growth in subject matter expertise and the home station workforce; this is particularly critical in longer-term, sustained forward contingency environments where the forward deployed installation interacts frequently with representatives from its host nation. We've come perilously close to extending our experts in protocol for lengthy tours just to meet our ongoing deployment commitments.

One very successful outgrowth of our realignment into a Manpower, Personnel and Services community across the Air Force has been the ability to train and then leverage legacy

manpower and personnel Airmen, who historically have deployed much less frequently than Services personnel, to support our deployed protocol mission. In 2006, we piloted an in-depth Fundamentals of Protocol course at our Air Force Institute of Technology; as of today, we are the only service to offer this kind of continuing education. In 2008, we'll host a first ever combined Air Force Honor Guard, Mortuary Affairs and Protocol symposium for 350 personnel, both military and civilian. The Symposium will address key issues on policies, procedures, expeditionary doctrine and practice, equipment and training while promoting synergy for the new, combined installation Protocol and Honors function.

Food Service

Air Force Services feeding operations extend far beyond our support to contingency and deployed missions. We operated large scale enlisted dining facilities at the installation level; in 2007, those facilities served over 32 million meals at bases in the continental United States and over 8 million meals at installations outside the United States. This past year, we conclusively validated our requirements for flight meals to aircrew members and for ground meals. To date, Air Force Services has invested over \$160 thousand in operations and maintenance for our Corporate Food Service Management System, which gives us a networked electronic tracking and monitoring capability for all enlisted food service activities at installations around the globe. Our food service professionals are also participating in a Joint Food Management Software Development team.

We're also aggressively pursuing ways to transform our food and beverage functions across the enterprise. Last year I briefed that we're developing a new five-year strategic plan to employ private sector best practices in developing new initiatives and incorporating new performance measures. Our food transformation effort is a direct result of those strategic ideas and our Strategic Planning Board identified it as the number one strategic initiative in an April

2007 commanders' conference. Air Force Services chartered a Food and Beverage Transformation Team in summer 2007. We envision an efficient, solvent, affordable, adaptable, and customer-driven integrated food delivery system, in an environment that ensures Services Airmen maintain the skill sets required to provide wartime and contingency feeding operations.

We've assessed the full spectrum of our food and beverage operations, both enlisted dining facilities and other casual and theme dining venues at the installation. We're analyzing ways to increase efficiency dramatically while lowering overhead, personnel and process costs. We'll gain many of these efficiencies by partnering our diverse functions internally into a single, streamlined food and beverage function. We'll do this while maintaining high quality, nutritious and appealing meals for all our customers in keeping with Department of Defense and Air Force standards.

Fitness

The Air Force is committed to our Chief of Staff's "Fit to Fight" program. What we've developed in Air Force Services dovetails excellence in fitness with overall excellence in wellness. We've partnered with Health and Wellness Centers to teach unit physical training leaders how to provide classroom presentations on fitness and how to conduct dynamic, effective unit fitness programs. Due in large part to our emphasis on excellence, overall Air Force fitness assessments on annual tests improved: 97.2 percent of all personnel achieved "good" or "excellent" scores, nearly a 2 percentage point increase over the previous year. We've worked with individual unit commanders and their representatives to implement incentive programs for individuals who increase their scores or who achieve the "excellent" category.

The Air Force also provides excellent fitness equipment and programs for our deployed Airmen. At many locations, our deployed forces enjoy commercial quality fitness equipment similar to what's available at their home stations. We've set up programs to advise and support

contingency locations on equipment purchase, and we also provide scholarship funds to enhance core and incentive fitness programs with refreshments and recognition mementos.

Despite challenges in contracts for group exercise support, sports officials and enhanced staff training, over 65 percent of Air Force base-level fitness centers have achieved the Air Force goal of 4 Stars in our 5-Star Recognition program. We also awarded certificates to 40 new Air Force Exercise Specialists, who completed basic and advanced training plus 100 contact hours with customers.

Lodging

Air Force Inns provide high quality, cost-effective lodging to official Department of Defense travelers at 93 locations. Air Force Lodging is the first Services functional area to centralize its processes fully; effective October 1, 2007, all Air Force Inns fall under consolidated central management for capital requirements funding, as well as for procedure and policy guidance. Our Major Commands have partnered with central management and Air Force Inns and remain involved with issues and actions affecting their respective bases. Additionally, we've set in place a process to phase out Major Command Lodging Funds, allowing them to close out purchases made under old systems with full dissolution by June 1, 2008. We've set up a single replacement schedule for all investments in the Air Force's 93 Inns, balancing commercial hospitality replacement standards with occupancy and usage. We've developed a comprehensive master database that details the Air Force lodging inventory by base, building, and room type; tracks previous renovations; and forecasts anticipated replacement requirements.

Our lodging centralization initiative also migrated responsibility for the biennial Air Force Lodging Standards accreditations to central management oversight. A team of four evaluators from this central office visits bases on a two-year cycle to assess compliance with Air Force lodging standards, to assess staff management practices, and to provide staff assistance

guidance as required. The team visits new lodging managers and properties with previous failed accreditations annually until the program achieves two consecutive accreditation scores of 85 percent or higher. To enhance corporate management further in Air Force Inns, we've standardized position descriptions for all lodging personnel and prescribed organizational structures that consider base missions and room inventory. These position descriptions and structures will be in full effect by September 30, 2008. Our end-state goal for Air Force lodging is improved quality of quarters, managed costs and resources that support a "Most Efficient Organization," and standardized room amenities and guest services that better meet guest expectations.

To support both guest expectations and the Department of Defense mandate to use the web-based Defense Travel System for official travel reservations, Air Force Inns have partnered with Navy Gateway Inns and Suites and are in our second year of implementing the Defense Lodging System. This system allows Department of Defense travelers, either on orders or in space available status, to book lodging reservations at Air Force or Navy installations directly online. The central enterprise system is housed with data storage at the Air Force Personnel Center on Randolph Air Force Base, Texas, while we work to co-locate our multiple enterprise systems. The Air Force has fully implemented this new reservation system at three Air Force Inns; we're awaiting additional funding in fiscal year 2008 for full rollout, with an estimated completion date in fiscal year 2010. The Navy is 100% funded and has implemented 17 Navy Inns with an estimated completion date in fiscal year 2009.

To keep pace with commercial hotel properties, our centralized telecommunications contract standardizes our services at all Inns in the continental United States. This guest service initiative includes standardized telephone, high speed internet, television services and guest entertainment for all guest rooms, providing a similar lodging experience whether the guests are

located in Tucson, Arizona or Minneapolis, Minnesota. Installation of this new service is cumbersome as we work around outdated legacy systems and wiring; we've chosen to implement the high speed internet portion of the service independently in 2008 to keep up with guest expectations that they'll be able to work on the road and stay in touch with family. In 2009, we'll follow up by installing all guest entertainment features. Further, we recognize our Inns outside the continental United States require the same level of guest support, so we're exploring partnerships to deliver equal services in our Pacific and European areas. All in all, Air Force Lodging is paving new ground in the Department of Defense and creating a corporate-like operation which remains focused on maintaining our unique military capabilities. We believe we can provide a great night's stay comparable to commercial properties and still support unplanned requirements: 200 unexpected Army personnel who need lodging while enroute to deployed locations, or a no-notice inspection team, or surge requirements with triple-billeting for a Pacific base that has just become a major thoroughfare for military personnel enroute to Southwest Asia. Military lodging is critical to the success of our Air Force mission, and our improvements only enhance that overall success.

Child and Youth Programs

Air Force Services is dedicated to caring for Airmen and their families. Nowhere else is that care for families so evident and hands-on than in our child and youth programs. We are committed to readily available, affordable and quality child care and youth programs. This is a workforce issue with direct impact on mission readiness. The Air Force provides child and youth support through a variety of traditional, expanded child care and outreach methods.

The Air Force child development program is funded with a combination of parent fees, Department of Agriculture Child and Adult Food Program reimbursements (except overseas), and taxpayer dollars. Taxpayer support of the program has increased significantly since 1990.

In 2007, parents with children in child development centers paid less than half the cost of the care their children received. On average, parents paid less than \$2 per hour for 50 hours of care per week, including 10 meals and 10 snacks. Fees were based on total family income and range from \$43 to \$129 per week per child. In non-subsidized Family Child Care homes, parents paid most of the cost per child. On average, parents paid \$106 per week for 50 hours of care. Fees were set by providers, not based on total family income.

Beyond the care given in on-base child development centers, the Air Force offered a diverse array of non-traditional child care programs in 2007. Our Air Force Family Child Care Subsidy program allowed Airmen to use a family child care home and pay the same weekly fee they would be charged in a child development center or school-age program. The Air Force subsidized costs for Airmen who have children under three years of age, special needs children, and those who worked swing or midnight shifts. The Air Force Family Child Care Subsidy program reduced out-of-pocket child care expenses for parents and offered a quality alternative when the on-base Child Development Center was not available. In subsidized homes, parents paid the same amount as if they were in the CDC. On average, parents were subsidized \$143 per month per child in 2007.

The Air Force Extended Duty Child Care program provided 18,000 hours of extended child care each month in Family Child Care homes at no cost to military members. This program was designed to help Airmen who have to work longer hours, evenings, overnight, weekends, or are experiencing a temporary shift change. At three installations, we also offered the Air Force Missile Care program for those Airmen required to work several consecutive 24-hour shifts at missile sites.

Air Force Returning Home Care provides child care to eligible Airmen returning from 30 days or more deployment in support of contingency operations as well as those returning for two

weeks of Rest and Recuperation leave. Airmen received 16 hours of free child care upon their return to their home station and their family. AF Returning Home Care program supports post-deployment by providing child care while Airmen and spouses reconnect.

We have partnered with the National Guard Bureau to discuss child care options and their potential synergies with other Guard programs. Air Force Home Community Care offered over 45,000 hours of care to Air National Guard and Air Force Reserve families at 16 locations and all AF installations. By providing free in-home quality child care services to Guard and Reserve members, the Air Force significantly reduced these families' out of pocket expenses on primary unit training weekends, ensuring these members could be fully trained and ready to mobilize.

Following an extensive survey of child care centers in the United States, the National Association of Child Care Resource and Referral Agencies assessed the Department of Defense child care system at the highest ratings compared to all 50 states. Compared to the states, the Department of Defense ranked highest in both standards and oversight and thereby earned the highest overall rating. Also in 2007, the National Association for the Education of Young Children completely revamped its accreditation process, resulting in a dramatic decrease in the number of programs that met the new accreditation standards. To prepare bases to meet the increasing challenge, we implemented a five-year plan to phase Air Force programs gradually into the new accreditation system. Although 20 percent of national programs attempting re-accreditation have been denied by the new system, the Air Force currently has a 100 percent success rate, with our first 15 programs all successfully accredited under the new system. We attribute this success to our five-year approach which incorporates training, consultant support, and standardization of processes.

Youth Programs

Our youth programs are equally critical to overall support for Airmen and their families. We've successfully partnered with the Boys & Girls Clubs of America to reach youth both on base and in community environments. One partnership program, between the Boys & Girls Clubs and the National Football League, awards winning sites with funds to support or start youth football programs. A record total of 30 military sites earned \$2,500 National Football League grants during the 2007-2008 grant cycle, and our Air Force programs garnered 40 percent of the total. Eielson Air Force Base Youth Programs received national recognition and a check for \$10,000 from the Boys & Girls Clubs and the Annie E. Casey Foundation, for effectiveness in developing collaborative family support initiatives that reach, serve and directly benefit families. Through a "live and learn" approach, Eielson's youth program developed classes, projects and activities for entire families. They tapped into all resources on the base for ideas that might interest deployed family members; the classes had something for everyone, from free nights of entertainment like skating parties, bowling and swimming to "safari parties" and a communications fair. This program averaged 20 participants per class and reached 150 families, increasing youth program membership by 60 newcomers and making great strides toward meeting the Defense goal of 35 percent eligible youth enrolled in youth programs. The Boys & Girls Club also singled out Mr. Garland Becker from Little Rock Air Force Base Family Member Programs with award of a national medallion for "unusually devoted service that has contributed greatly in helping youth to achieve a fuller and richer life through positive guidance and influence."

Fifteen year old Maddison (Maddie) Byrd of Ramstein Air Base, Germany, won the inaugural Major League Baseball S.T.A.R. award that recognizes youth participation and achievement in sports, fitness and social recreation programs. Maddie and her parents represented the United States Air Force, Ramstein Air Base, Ramstein Youth Programs and

military youth from around the world when she accepted her award at the third game of the 2007 World Series. Maddie was selected from thousands of nominees as best exemplifying the values of sportsmanship, team spirit, achievement and responsibility.

Air Force Services carries its emphasis on fitness beyond traditional fitness centers that target Airmen; we also target fitness opportunities at youth through our Air Force FitFactor Program. This web-based initiative encourages youth between the ages of 6-18 to be active every day and make healthy nutrition choices. We enrolled more than 15,610 youth in the FitFactor program in 2007. We also expanded FitFactor to include parents and staff members, introduced the program to families of Air Force Reserve and Air National Guard, and partnered with Navy Youth Programs to provide FitFactor for Navy youth.

For the second year in a row, Air Force Services' *Stay Connected* Kits provided parents and children a way to stay connected with family members who were deployed. The extremely popular kits include items in pairs—one for the child to keep, and one for the member to take on deployment—such as mouse pads, note cards, cameras, picture frames, journals and recorder pens, baseball caps and stuffed bears, all packaged in a Stay Connected sling bag. We send more than 6,700 kits to 95 active duty, Guard and Reserve bases, bringing our total two-year total distribution to 13,700 kits.

We expanded our partnership with the 4-H program in 2007, providing opportunities for 7,200 youth to be enrolled in 4-H clubs on stateside and overseas bases. Joint funds from 4-H and Air Force directly benefited 74 Air Force bases and numerous Guard and Reserve units through quality 4-H programming. As part of the ongoing partnership, 85 Air Force youth converged on the Arkansas 4-H Center for an Outdoor and Adventure Youth Camp that included teambuilding, navigation, kayaking, canoeing, caving, climbing, archery and large team projects.

The camp emphasized our FitFactor principles during the week, as teams collected points for morning runs and walks, evening recreation and a long distance run.

Nontraditional Child and Youth Programs

Military Child Care in Your Neighborhood is a Department of Defense-sponsored initiative that is designed to meet the child care needs of servicemembers living in off-base areas where on-base military child care is not available. Our Family Member Programs staff provided referral information to eligible members like recruiters, Reserve Officer Training Corps instructors, Military Entrance Processing Station personnel and geographically-dispersed members on independent duty assignments who cannot access the high quality, affordable care available on military installations. Historically, these families bore the full cost of their child care while receiving a small subsidy paid directly to the provider of their choice. Under this new initiative, Air Force families pay reduced fees for child care in their neighborhoods.

The Air Force Mission Youth Outreach initiative was established as part of the ongoing partnership between Air Force Services and Boys & Girls Clubs of America. This outreach initiative provides one-year free memberships for young people to attend any local Boys & Girls Club in their community. This program provided much needed support to active duty, Guard and Reserve families who do not live near a military installation and need a safe and positive place for their children to spend out-of-school time.

Air Force Services also partnered with National 4-H Headquarters and Army Child and Youth Services to fund grants to states and territories establishing 4-H clubs on military installations, as well as provide support for youth of National Guard and Reserve members who are geographically dispersed. Since 4-H is located in every county in the US, this partnership helps Air Force installations expand their reach and fosters stronger community partnerships for

Guard and Reserve families. Joint funds from all four organizations directly benefited 7,200 Air Force youth at 74 bases and in 28 states.

Airman & Family Readiness

As another part of Air Force Services' realignment to the Manpower, Personnel and Services community, the Airman & Family Readiness function became part of Air Force Services. This function works closely with our Child and Youth Programs to provide a full range of support to Airmen and their families. Its major components for the 21st century are readiness and deployment preparedness, leadership and unit outreach and counseling, and crisis and disaster response. In 2007, Airman & Family Readiness Centers conducted 168,714 pre-deployment briefings and reintegration educational sessions.

In April 2007, we opened our first Airman & Family Readiness Center in a deployed environment on a test basis for three rotations. One military member and one civilian from a Major Command volunteered to man the Center during its first rotation, focusing on deployment support issues like combat stress, morale calls, maintaining family connectivity, building relationships, Air Force Aid Society support, personal financial management and preparation for post-deployment reintegration and reunion with families. Over 1,000 Airmen, Sailors and Soldiers participated in Airman & Family Readiness services in the first two months, prompting our decision to continue the trial period through fiscal year 2008.

Our staff partnered with the Military Child Education Coalition to address the needs of school-age children in military environments and participated in a Dependent Education Council working group to develop recommendations on policy and operation of Department of Defense dependent schools both inside and outside the continental United States. Airman & Family Readiness Centers joined with their counterparts from other component services to support victims of California wildfires by placing evacuees, issuing loans and standing up Emergency

Family Assistance Control Centers. We're participating in a two-year demonstration project with the Department of Labor to assist military spouses in developing the skills necessary for successful entrance, navigation and advancement in high demand, high growth occupations. At those demonstration sites, eligible spouses may use flexible education funding vouchers called Career Advancement Accounts to pay for expenses directly related to post-secondary education and training up to \$6,000 per spouse over a two-year period.

We've partnered with the Air Force Personnel Center in a certification workshop designed to establish internal accreditation standards for Airman & Family Readiness Centers across the Air Force and standardize the services provided from base to base. In the future, this effort will yield streamlined inspections and benchmarks for use in joint operating environments.

Community Services

Air Force Services offers a full range of traditional MWR programs in home station environments, all of which target improved quality of life and reduced stress and anxiety. Many of our recreation programs translate in one form or another to support for deployed members in contingency locations. We see the direct link between our high quality recreational programs and stress relief, recruiting and retention.

In addition to its integration as part of our long-term Food and Beverage Transformation Team effort, our Air Force Club program successfully tested a new Card Choice initiative from January 1 to June 30, 2007. This initiative allows both new and existing club members to choose between commercial credit cards and private label or proprietary cards. We plan to implement the program Air Force-wide in summer 2008. Our efforts to educate the newest Air Force members, our junior enlisted and officer personnel, continued in 2007 by introducing over 36,000 new Airmen to Services programs during their basic military training courses; this effort

recruited almost 4,700 new club members. Our annual Football Frenzy promotion drew in over 43,000 participants, generated over \$623 thousand in sales and 437 new members.

We completed two golf greens renovations projects in 2007, at Little Rock Air Force Base, Arkansas and Patrick Air Force Base, Florida. These renovations are part of a phased initiative to bring Air Force golf courses in closer alignment with industry standards, with higher quality turf, lower maintenance costs and increased customer satisfaction. We participated in a survey of 65 Air Force golf courses in October 2007 to assess 21 key attributes that affect golfer experience. Follow-on individual consultation with base-level golf managers led to action plans which we'll use in 2008 to address our customers' concerns at the local level.

We continued a programmatic expansion of our programs towards higher technology and digital media. Our Arts and Crafts' Air Force Gallery program grew dramatically in 2007, its 500 submissions more than doubling the entries from 2006. In this program, base-level personnel may submit digital photographs and imagery for display at an online Air Force "dot.com" site. 2007 also saw us renegotiate our Leisure Travel contract and begin expanding the range of services and products in our Information, Tickets and Travel activity to include more discounted packages for individuals, families and large groups. Our office at Tinker Air Force Base, Oklahoma, worked with a customer to create around-the-world airline reservations as support for a schoolchild's geography project—stipulating that the child had to travel from airport-to-airport and cross the equator. Our customer-oriented staff produced a great end result, a three-day trip that covered 26,469 miles and included stops in Dublin, Frankfurt, Abu Dhabi, Sydney, Los Angeles and Dallas for only \$3,171, and in the process made a customer for life.

Air Force Bowling remains a family-oriented recreational activity which gets a huge amount of support. Air Force customers bowled over 7.5 million lines in 2007. We opened a huge Family Fun Center at Maxwell Air Force Base, Alabama, which combines bowling with

other family-themed activities. Our Aero Clubs provide both recreational and morale-building venues for individuals pursuing aeronautical skills, but have a secondary purpose as well. Our 22 Aero Clubs provided direct mission support in 2007 as training vehicles for Operation ENDURING FREEDOM aircrew and radar controllers on procedures to intercept slow-speed aircraft. They supported introductory flight screening for Navy, Marine Corps and Coast Guard pilot and navigator candidates. 4,000 Aero Club members flew 63,000 hours in 250 aircraft with no injuries—and experienced less than half the accident rate in general aviation.

Outdoor Recreation has doubled in the past 10 years. Its unique programs take advantage of local natural resources and adapt to changing customer interests. We operate a diverse mix of programs and facilities, to include parks and playgrounds, swimming pools, hunting and fishing programs, skiing and snowboarding, cycling, stables, horseback riding, boating, climbing walls, cabins, cottages and camping areas. One new direction in outdoor recreation is to tailor some programs for accessibility to Wounded Warriors who face physical challenges but want to share the outdoor recreation experience. We expect increased use of these newly accessible programs in future years.

Customer visits to Air Force libraries exceeded 9 million in 2007, and circulation totaled over 9.9 million books. In addition to outstanding support for home station customers and family members, our library program supported over 250 remote sites and contingency operations in 2007 with monthly paperback and periodical kit distributions. We shipped over 24 “playaway” kits of fiction and nonfiction material downrange every month. Air Force libraries are the lead function for support to deployed Learning Resource Centers. These highly valued centers have not only educational programs and resources, they offer opportunities for deployed military to record themselves reading stories aloud and send them home to children, and in some

cases have obtained special phone lines dedicated to morale calls that further promote connection with families and loved ones.

2007 was a banner year for our Air Force Sports and its World Class Athlete Program. 350 men and 180 women competed for opportunities to represent the United States Air Force in a range of sports venues. The Air Force won 12 of the 20 Armed Forces Championships in 2007, with 24 Airmen earning All-Tournament honors and 50 Airmen advancing to national championships with combined Armed Forces teams. Five Air Force women were named First Team All-Americans when they led the Armed Forces to the 2007 Women's Open National Softball Championship. Six Airmen led the US to the 2007 International Military Golf Championship hosted by the Republic of South Africa. Thirty-eight Airmen represented the Armed Forces at the 4th Military World Games in India, and three Air Force athletes participated in the 2007 Pan American games, one of whom directly qualified for the 2008 Olympics. Two Air Force track & field competitors participated in the 2007 Pan American games and the 2007 World Track & Field Championship hosted by Japan, an Olympic equivalent event in non-Olympic years. Three Air Force athletes are currently ranked number one in their respective sports by the US Olympic Committee, while a fourth is ranked number two. We are proud to support these world class athletes.

Our Tops in Blue expeditionary entertainers performed at virtually every Air Force base in the world in 2007. Titled "The Fly-By," the tour featured a musical tribute to 60 years of Air Force history, with 11 shows in 6 countries in Southwest Asia, entertaining military members at our forward deployed locations. As lead entertainment for the Air Force 60th Anniversary Commemoration, Tops in Blue performed a number of shows for special audiences, including the Air Force Birthday Celebration at the Pentagon, the Global Air Chiefs Conference in Washington, DC, five Air Force Weeks in major cities, and 60th Anniversary events held

throughout the US. Other special shows included a United Services Organization salute in Wiesbaden, Germany; Aviation National Air Show in Las Vegas; and the national convention of the Air Force Sergeants Association. Tops in Blue performed over 150 shows for over 500,000 servicemembers, military families, and civilians throughout the world.

Armed Forces Entertainment

As the Department of Defense lead agent for Armed Forces Entertainment, the Air Force is uniquely charged with providing a wide range of performances and venues to military members around the world, regardless of geographic location. Our staff includes dedicated representatives from the Army, Navy and Marine Corps, who work side-by-side with Air Force staff to secure, program, plan and implement successful entertainment tours around the globe.

Armed Forces Entertainment supported 129 different tours in 2007. Sixteen tours visited 23 sites in the Mediterranean, 31 tours visited 225 sites in Southwest Asia, 45 tours visited 60 sites in the Pacific, 22 tours visited 28 sites in Europe, and 15 tours visited 9 sites in the Caribbean. We conservatively estimate a cumulative audience of over 200,000 attendees for Armed Forces Entertainment activities. The acts are well received by servicemembers, and include comedy acts, musicians, dance teams and sports performances such as Brett Michaels from the rock group Poison, the Harlem Globe Trotters, and World Wrestling Entertainment personalities. Commanders in contingency and deployment locations continue to show great support and demand for this program, and we fulfill 80 percent of their requested entertainment tours to remote sites.

Force Sustainment

One of the newest additions to our Air Force Services family is charged with meeting Airmen's basic needs through policies relating to compensation, allowances and entitlements.

Our Force Sustainment specialists focus on compensation issues and administer programs unique to commanders.

In the compensation arena, we reviewed 308 Airmen requests for Basic Allowance for Housing waivers during 2007, approving 286. Approval allowed those Airmen to maintain their current housing allowance rates when they have to relocate for less than a year to participate in professional military education or training classes. These situations often cause hardships on military families with school-aged children, and make it necessary for some members to leave their dependents in place rather than relocate them for the short duration of the assignment. Additionally, we worked with the Office of the Secretary of Defense in a coordinated effort with 141 base-level housing offices to re-evaluate local housing factors that determine housing allowance rates. The result for 2008 was an average increase of \$83 per month in each Airman's housing allowance.

Field Systems and Support

Air Force Services continues to take an enterprise approach to our systems and support operations. This past year, we stood up an Enterprise Customer Support Center to provide help for activities across our community 24 hours a day. This centralized approach reduces costs, enhances system security, and improves support for users of our 85 electronic systems. This is an information technology industry best practice that also enables us meet Air Force direction to consolidate core services, network and systems support.

By May 2007, we successfully completed Defense and acquisition community requirements to deploy a new nonappropriated fund purchase card. Our new P-Card is used for purchases made with nonappropriated funds, instead of the Government Purchase Card. This multi-year initiative affords the opportunity to innovate and to leverage much more of our buying power than we'd previously anticipated. Since we control the card, we can tailor the business

rules to the NAF environment and provide greater responsiveness than was possible under the Government Purchase Card. Our NAF purchases under the P-Card have already more than doubled our previous volume under the government's card, and rebates to the field have gone up even faster; just as important is the drastic reduction in paperwork and manual effort required to make purchases, reconcile transactions, and make payments. Our central nonappropriated fund purchasing office also laid the groundwork for deploying a "virtual card" in 2008 as a payment vehicle for our NAF-funded big-dollar purchases like bulk buys, major equipment items, and even construction projects. This will shift even more payments into a streamlined and or rebate-generating environment. We are reinvesting all rebates back into MWR programs for military members.

We continued deploying our new accounting and payroll systems, adding 40 locations and 140 nonappropriated fund instrumentalities in 2007. Our central Treasury Offset Program successfully returned \$1.5 million in previously-uncollectible accounts to our base-level operations. Our check re-presentment program reached its highest collection percentage ever in January 2007 with a clearance rate of 86 percent, nearly doubling the average 46 percent historic clearance rate when bases handled their own check collections. We initiated a centralized Military Pay Order program with 276 collections processed directly to the Defense Finance and Accounting System office, collecting and returning over \$21 thousand in 2007. We estimate cost savings at the completion of our nonappropriated fund transformation initiative at \$12 million per year.

We launched a customer feedback survey in December 2007 as part of a new enterprise feedback management system, to improve the quantity and quality of research through a state-of-the-art web-based software application. We've received more than 60,000 responses worldwide, a 300-percent increase over the paper mail-out surveys we used in previous years. This year, the

application will be available for all installations and Major Commands to capture market data for local use and to consolidate the data for use at an enterprise level.

Nonappropriated Fund Construction

Our FY08 NAF Report to Congress included a new \$17 million Enlisted Club at Osan AB, Korea. We completed 13 major projects last year, including a new Youth Center at Lackland AFB and expansion of the one at Whiteman AFB, the Vance Bowling Center, and the Buckley Outdoor Recreation facility. We have funded 42 other projects for nearly \$180 million that are currently under construction or design, and another 38 projects are waiting in the wings for \$75 million in nonappropriated funding to become available.

As a side note—and not only as a member of their Board of Directors and major stakeholder in their operations, but also as a long-time customer—I am encouraged by the improving financial performance of the Army and Air Force Exchange Service. Their dividends not only support our day-to-day operations in the field, but also serve as the major source of funds for our capital program. I must give credit to the Subcommittee for some of this improvement; your efforts to ensure funding for their costs in supporting operations in Iraq and other contingency areas have relieved a significant burden from Soldiers and Airmen. I must also give a great deal of credit to their Chief Operating Officer, Mike Howard, as well as the new AAFES Commander, Brigadier General Thurgood. Mike's clear vision and unwavering focus are successfully getting store-level management back to the basics. His efforts are providing a needed shift in focus throughout the organization, and are showing up as earnings and dividends begin to rebound. General Thurgood brings a wealth of knowledge and experience from the civilian industry, and is providing outstanding leadership and support. I have worked with many AAFES executives and commanders over the years, but this leadership team is unquestionably the best.

The FY08 Report to Congress also included a new \$33 million requirement for a 210-room Visiting Quarters project at Langley AFB, to be built with funds derived from the lodging operation. Sixteen other lodging projects have been funded for a total of nearly \$390 million and are currently under construction or in design. Five other projects have been validated and will be considered for \$90 million in lodging funding as it becomes available.

We also appreciate the Subcommittee's efforts in supporting our military construction requests for facilities that rightfully are funded from appropriations. Your actions are critically important if we are to satisfy quality of life requirements without shifting the burden to our Airmen and their families.

Conclusion

I am extremely proud of our Air Force Services personnel and their round-the-clock, unselfish dedication to Airmen and their families. Their mission sustaining and community support efforts drive the highest quality of life for our military members. What I've shared with you today is merely the tip of the iceberg of success in our outstanding programs. We foster a sense of community in every environment, from home station to contingencies and deployed locations. We care for families so our Airmen can fight with confidence and without anxiety. We care for Airmen by meeting not only their basic needs but also providing emotional and recreational support. We take care of people, every minute of every day at locations scattered all around the world. We proudly maintain the human warfighting machine. Our team could not do this without the support we get from the Military Personnel Subcommittee. Thank you for joining us in this critically-important effort. I look forward to working with you into the future, and welcome any questions you may have.

**WITNESS RESPONSES TO QUESTIONS ASKED DURING
THE HEARING**

APRIL 17, 2008

RESPONSE TO QUESTION SUBMITTED BY MRS. DRAKE

Ms. ARSHT. On behalf of the Department, we are exceptionally proud and deeply appreciative of the services and sacrifices of all our nation's veterans. Based on surveys of our active duty personnel, we know the commissary and exchange are highly valued benefits and we work hard to protect these non-pay benefits for all who are eligible. The Department has not surveyed the active duty members to assess their attitudes and opinions about extending commissary and exchange shopping privileges to disabled veterans with a 30 percent Service-connected disability, along with their dependents. The addition of other categories of eligible patrons has been accomplished legislatively, based on the compensation status of the individual or in recognition of their retired status. The last major change, enacted by Section 651 of the National Defense Authorization Act for Fiscal Year 2004, authorized unlimited access to commissary stores for Reserve members and their dependents. [See page 19.]

RESPONSE TO QUESTION SUBMITTED BY MS. TSONGAS

General MACDONALD. Food items to feed military members from all Services and civilians, including U.S. government employees and private citizens, are provided under a Defense Logistics Agency contract by a commercial prime vendor. These items are usually transported from U.S. sources, while some items, such as produce and bakery items, may be procured locally from approved sources.

Today U.S. government is making a number of local food purchases in Afghanistan and is actively working to expand local purchases. We buy bottled water from three Afghan bottling plants and a fourth plant is awaiting approval. An Afghan soft drink plant has recently received Army Central Command medical approval and is being added as an approved source for the DLA prime vendor in Afghanistan. However, local purchase of food items is a careful and deliberate process requiring medical screening and approvals, followed by periodic audits of food sources, in order to protect the health and strength of military members and civilians. These steps must be accomplished before local purchase of foods, such as fresh fruits and vegetables, can be approved and conducted.

There is another, broader initiative to support the Afghan economy, the Afghan First Program, administered by the International Security Assistance Force under NATO, which seeks to utilize Afghan services, purchase Afghan goods, and develop Afghan skills while supporting local currency and encouraging economic competition. This Program's motto is "support the local economy through local procurement." The DLA prime vendor in Afghanistan is engaged with this program. [See page 27.]

QUESTIONS SUBMITTED BY MEMBERS POST HEARING

APRIL 17, 2008

QUESTIONS SUBMITTED BY MRS. DAVIS

Mrs. DAVIS. H.R. 4497, bill offered by Representative Lincoln, would prohibit the use of gambling devices on DOD property. I have noted that the MWR slot machine program contributes \$101 million in net revenue to support MWR programs. Ms. Arsht, how important are slot machines to troop morale? If MWR slot machines were eliminated at overseas locations, how serious would the loss of revenue be?

Ms. ARSHT. Gambling devices on DoD property produce a sizeable and predictable stream of revenue that support MWR programs. In Fiscal Year 2007, profits covered approximately 6% (\$129.1 million) of non-appropriated (NAF) MWR expenses (\$2 billion). Gambling device revenues primarily pay for Category C MWR facility capital improvements that are not authorized appropriated fund (APF) support (i.e., food and beverage upgrades, golf course upgrades, cabins, and cottages). Funds are also used to support a wide variety of quality of life programs such as youth and outdoor recreation programs. Loss of these revenues would have a significant negative impact on facility renovation and construction, equipment purchases, and MWR programs not funded with congressionally approved APFs.

Appropriated funds are not available to replace any loss of slot machine profits, so the resulting loss of available funds would also have a substantial degrading effect on troop morale, particularly overseas, where there are the least off-installation opportunities. MWR programs offered worldwide are intended to bring the touches of home to Service members and their families. Military communities, as a microcosm of American society, are generally entitled to the same quality of life activities that are available in the United States.

On-installation gambling activities are only offered when they are available in the host country and are not stand-alone programs. They are offered in a controlled environment as just one recreational choice among approximately 50 recreational activities, with all profits returned to the MWR program.

Mrs. DAVIS. The Defense Commissary Agency (DeCA) has been working on its "Workforce of the Future" (WOF) includes the best practices of the private sector which would hopefully posture DeCA to improve its performance in A-76 competitions with private sector industry. The Subcommittee appreciates that implementation of NSPS was problematic and WOF was never able to move forward on its original schedule. Ms. Arsht, given that the Defense Commissary Agency has not been able to fully implement its new workforce model, Workforce of the Future (WOF), do you agree that the continued exemption from A-76 contracting out competitions is the appropriate course of action?

Ms. ARSHT. DeCA is implementing its WOF, to provide store-level employees with more flexible position descriptions, allowing them to cross-train in multiple positions and provide better advancement opportunities, while providing a more efficient workforce. While implementation of the WOF will improve DeCA's ability to successfully compete with the private sector in A-76 competitions, continued exemption from A-76 competitions is not necessary. Competitions could be conducted at those commissaries where WOF has already been implemented, without disadvantaging DeCA or its employees.

Mrs. DAVIS. One of the consequences of the realignment of forces from overseas locations and the trend toward increased emphasis on joint operations is the establishment of joint installations with sizeable populations from multiple services. The combining of military resale and MWR activities is complicated by financial and administrative problems. Ms. Arsht, given the plan for DOD to establish an increasing number of joint bases, how will DOD insure that the exchange services and MWR activities and their employees will receive equitable treatment?

Ms. ARSHT. Joint bases are important to today's war fighting strategy, but will have challenges and growing pains as we work through joint operations and standards. Joint bases will be high quality places where people want to live. Centralized guidance has been issued to cover this important area. Using the Joint Standards as a beginning point, DoD will oversee, visit, and assist the joint bases in achieving equity, while ensuring that services are delivered to the benefit of all Service members. Further, equitable treatment of our employees will be a priority. Ultimately,

joint installations will provide seamless, high quality services to Service members and their families, regardless of their parent Service.

Mrs. DAVIS. Mr. Baker, Mr. Larsen, General Macdonald, and Mr. Myers, what are the services doing to identify and counsel service members and their family members who are addicted to gambling?

Mr. LARSEN. A query, via email, to Marine Corps Substance Abuse Counseling Centers (SACC) revealed that a small number of individuals (30) sought help for gambling at our SACCs last year. Four installations (MCB Camp Pendleton, MCRD San Diego, MCRD Parris Island, and MCAS Beaufort) provide counseling services, either at the SACC or at General Counseling, for gambling addiction; most refer to Gamblers Anonymous (GA).

Marines and their family members who need assistance with gambling addiction can contact Marine Corps Counseling Centers, Personal Financial Management Specialists, or Military OneSource for referral to community support organizations such as GA, Gam-Anon, and the National Council on Problem Gambling. Many school districts also provide programs to help students with gambling addiction.

In addition to referral services, Marine Corps Community Services will increase awareness on the risks associated with gambling and referral resources through targeted literature.

Mrs. DAVIS. Mr. Baker, Mr. Larsen, General Macdonald, and Mr. Myers, what are the services doing to identify and counsel service members and their family members who are addicted to gambling?

Mr. MYERS. Gambling addiction issues may surface when Airmen or family members seek assistance for financial, relationship, or other personal issues from an Airman and Family Readiness Center (A&FRC), Military One Source (MOS) consultant, or contracted Military Family Life Consultant (MFLC). While A&FRCs, MOS, and MFLCs do not offer treatment for addiction issues, all will provide education resources, answer questions about treatment options and facilitate connection to the appropriate level of assistance including self-help/support groups or long-term counseling options.

Mrs. DAVIS. Mr. Baker, Mr. Larsen, General Macdonald, and Mr. Myers, what are the services doing to identify and counsel service members and their family members who are addicted to gambling?

Mr. BAKER. Compulsive gamblers can be identified in a number of ways. Gamblers may make self-referrals, the command may make a referral, or judicial referrals can be made. Chaplains, mental health professionals, and Fleet and Family Support Center staff may all provide counseling and referrals on gambling issues. Counseling through military resources is most often provided on an outpatient basis and can be provided by any of the sources mentioned, depending on the issue. For example, Fleet and Family Support Center staff may work with financial hardships that have resulted from problem gambling and would refer the individual to a mental health provider to address behavioral issues. Some installations host support groups for individuals suffering from problem gambling as part of their substance abuse programs. They may also make referrals to civilian outpatient programs. Navy Substance Abuse Rehabilitation Program (SARP) and Mental Health departments can provide initial evaluation for those with a gambling problem. However, SARP does not provide outpatient services to treat gambling addictions. Referrals are made to appropriate network providers and to Gamblers Anonymous (GA).

A member may be referred for an evaluation as part of a legal proceeding or for counseling and assistance whenever deemed to have a mental/medical/physical problem that adversely affects the individual, unit, or good order and discipline of the command. Under Military Rule of Evidence (MRE) 513, communications made to a psychotherapist, clinical psychologist, or licensed clinical social worker for the purpose of facilitating diagnosis or treatment of the patient's mental or emotional condition are privileged from disclosure in cases arising under the UCMJ. Military mental health providers can refer an individual for assistance to a civilian treatment facility if the military location does not provide the needed expertise or care.

Mrs. DAVIS. Mr. Baker, Mr. Larsen, General Macdonald, and Mr. Myers, what are the services doing to identify and counsel service members and their family members who are addicted to gambling?

General MACDONALD. Army Family programs promote resilience and satisfaction with military life through prevention, education, and training. These programs are critical to the well-being of Soldiers and Families, and directly influence the Army's ability to sustain mission readiness.

In an effort to identify Soldiers and Family members with gambling addictions, we coordinate with the medical staff (MEDCOM), specifically the clinical professionals in the Department of Behavioral Health and other health care providers.

The Army's Alcohol and Substance Abuse Program screens for all compulsive behavior. Potentially addicted gamblers may be identified as a result.

Army Community Service (ACS) provides referral services to assist Soldiers and Family members identified with behavior and debt typically associated with an addiction to gambling.

Other resources for military Families include Chaplains, Military Family Life Consultants (MFLC), and Military OneSource (MOS). The MFLC provide much needed, on-demand support to Soldiers and Families. MFLC outreach efforts include direct consultation, classes, groups, and sessions for emotional well being which can be tailored to address gambling addiction. Military OneSource is a 24-hour, 7-day a week toll free information and referral telephone line and internet/Web based service which includes face-to-face counseling sessions available to active and reserve component Soldiers, deployed civilians, and their families. It augments our installation family support services to families living off installations. Soldiers and Family members needing intense, long term addiction counseling are referred to the TRICARE network.

Finally, Commanders may direct or recommend counseling services for Soldiers who they believe have gambling problems. In instances where there appears to be addictive behavior, Soldiers are referred to the Department of Behavioral Health for further assessment and treatment as warranted. Gamblers may also self-refer for assistance.

Mrs. DAVIS. The Defense Commissary Agency (DeCA) has been working on its "Workforce of the Future" (WOF) includes the best practices of the private sector which would hopefully posture DeCA to improve its performance in A-76 competitions with private sector industry. The Subcommittee appreciates that implementation of NSPS was problematic and WOF was never able to move forward on its original schedule. Mr. Page, if an extension of the exemption from A-76 competitions would give you till 2011, is that sufficient time for the Defense Commissary Agency to implement its workforce of the future?

Mr. LARSEN. Implementation of the WOF will provide store-level employees with more flexible position descriptions, allowing them to cross-train in multiple positions and provide better advancement opportunities, while providing a more efficient workforce. DeCA is implementing WOF through attrition, filling vacancies as they occur, under the new position descriptions. After expiration of the moratorium, A-76 competitions will resume first at those locations where WOF has been implemented in order to provide DeCA employees the best opportunity to compete successfully with the private sector.

